Master thesis:

BRAND EXTENSION PATHWAY FOR NICHE-PLAYERS

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Abstract

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KEY WORDS: Brand extension, niche companies, product portfolio, USP (Unique Selling Proposition), highly specialized players, brand equity.

PURPOSE: This thesis seeks to analyze highly specialized niche market companies abilities to expand their product portfolio moving away from the USP (Unique Selling Proposition) that characterizes their core product and their customers' perception of the company itself. Linking practical examples to the literature we aim also to develop a theoretical framework, namely a proper *management tool* for managers to exit LOCK-IN situation of niche players.

METHODOLOGY: Our empirical research is based on qualitative approach. The database consists of interviews, working experiences, observations, messages in forums and blogs, as well as real examples.

THEORETICAL PERSPECTIVES: The theoretical perspectives are derived from Niche market and Brand extension theories.

CONCLUSIONS: According to our research, consideration of brand, market and the competition is crucial before brand extension decisions. The companies launch the extension products in form of a new product, an adjacent product that is parallel with original offering, a secondary or complementary product and a mass product that targets a large customer base. Based on empirics, we proposed diverse solutions for the companies in order to beat the paradox of locked in brand image and value proposition. Value proposition transfer, creating a new Blue Ocean, gradual product development, brand repositioning and alternatives as co-branding and sub-branding are derived subsequent to observations of successful companies. They are applicable alone or together depending on launched product type.

CHAPTER 1. Introduction

1.1. Problem discussion

Successful brand extension, *niche marketing* and *the maintenance of strong customer relations* have been some interesting issues of academic marketing research over the last years. But the remarkable thing is that few studies have examined the concept of brand extensions for specialized niche players. The research literature deals in fact more with brand extension in general, its impact on the customers' perception as well as with niche marketing, describing its specific features, advantages and disadvantages. Many empirical studies have been conducted to show the perception of brand extensions among customers and their estimation of new products and less attention has been given on niche players. To our knowledge, no strategic management studies regarding niche market product portfolio extensions have been done so far and it is therefore the purpose of this thesis to analyze this concept.

As a result of our analysis of several specialized niche players we identified a singular business situation that seriously affects the ability to grow and survive of these players. After saturating their core market of competence these companies are in fact locked-in in a saturated market. Although this fact is typical in the market, analyzing various players of this category we noted though, that trying to extend their brand through a product portfolio expansion these brands faced an unexpectedly low market acceptance, resulting in failed product launches and eventually to bankruptcy. To prevent a possible failure we therefore concluded that a product portfolio enlargement strategy for niche players should be done using special strategies before and during the launch of new products.

One example of brand extension failure was the case of smart cars. The history of Smart[1] cars began in 1993 when the company Micro Compact Car AG, headquartered in Biel, Switzerland, was founded as a joint venture between Daimler-Benz and the Swiss watchmaker Swatch. Its *city car* named *smart City-Coupe* was designed for a European urban environment, with a specific emphasis placed on fuel economy and parking ease, the City-Coupe can in fact be parked perpendicular in a parking spot.

[1] Internet link: smart car brand history

The success of smart was on the eyes of all analysts and industry experts. In 2003, in fact, just 5 years after its launch the fortwo was sold 500.000 times just to privates and became one of the most interesting advertising means for many companies. Moreover, its curious design and bright color combinations made the smart models very visible on the streets, increasing the momentum around the brand smart. This success led to an eventual expansion of the smart car brand with the introduction of additional smart models, including the Roadster and Roadster-Coupe in 2003 and the Forfour sedan in 2004. The market reaction to these brand extensions was negative and the failure of these models led to a dramatic downturn of the smart's fortunes.

The problem, as we analyzed, was a result of the strong links between the core product or *flagship niche product* offered and its physical characteristics with the brand of the firm, reducing the acceptance by consumers of different products deviating from the initial *value proposition offer*.

1.2. Purpose

This thesis seeks therefore to analyze the abilities of highly specialized niche market companies to expand their product portfolio to move away from the *USP* (*Unique Selling Proposition*) that characterizes their core product and their customers' perception of the company itself. In a very dynamic and continuously fragmented business environment, this topic is nowadays more and more relevant and it is thus worth a deeper analysis.

Linking practical examples to the literature we aim also to develop a theoretical framework, namely a proper *management tool* for managers, that moves away from the common belief of managers that *theory is associated with the word theoretical, which connotes impractical* (Christensen, Raynor, 2003).

The target audience of our model is therefore the management of highly specialized niche players. The model we developed is in fact designed to support the management in the process design and implementation of the brand extension strategy that, given the particular nature of their firms, must be addressed with extra attention and precision. We address also academics in the field of brand extensions.

1.3. Thesis outline

The thesis is structured in two main sections, plus an introduction and a conclusions part. After an introduction describing the problematic, the purpose and the thesis outline, the first main section defines the theoretical concepts of brand extension and niche markets to introduce the reader to the topic and to provide a theoretical background for the thesis. The central and second section delineates the model developed, a two-steps model supported by several practical examples taken from various industries and markets. The model, defined as the *normative brand extension pathway for niche-players,* is divided in two main steps, *(1) the situation analysis*, including several examples of failed brand extension by niche specialized players and *(2) the solutions description*, that analyzes the aspects to be considered in the implementation of the solutions and the solutions themselves, described both theoretically, with the support of academic and business literature, and practically, through examples of successfully implemented brand extension strategies. The model offers also an implementation matrix to link the solutions suggested with the different typologies of brand extension opportunities identified, namely the launch of *completely new products*, *adjacent products*, *secondary products* or *mass products*. In the final conclusions part we sum up the key findings of our thesis and suggest directions for future researches in this young and yet unexplored field of strategic brand management.

CHAPTER 2. Methodology and data collection

2.1. Research approach and data collection

The thesis is conducted in order to determine potential strategies of product portfolio expansion for highly specialized niche players. A deeper analysis of the brand extension phenomenon for niche markets is also an objective of this study. In order to answer these research goals, we refer to business reviews, academic articles, newspaper articles and books, as well as and we conducted in-depth interviews with some business experts, such as members of the Würth Italy Purchase Department, members of the Daimler AG (Mercedes-Benz) Portfolio Strategy team and with the Vice President of the Direct Material Purchase department of the Volvo Car Corporation – names omitted for privacy.

In our research we focussed on secondary sources of information, therefore our *information database* consists of articles insights, books extracts, working experiences, observations, as well as messages in forums and blogs, and other real examples. Moreover, since financial results are not fully accessible, we refer to business reviews and publications as main data source. As a result business reviews, common senses and evidences in the industries analyzed are summarized to prove the consistency of the study and to support the existence of the problematic we defined.

To a certain extent we also accessed primary information, primarily obtained from 3 companies, as mentioned above, through detailed interviews to provide a deeper understanding of the discussed issues. Some information, provided by these sources, especially by Würth Italy and Daimler AG is confidential and should not be delivered without prior request.

2.2. Methodology

The model developed in this thesis is structured to be used as a proper management tool to be applied by decision makers among different industries and businesses. Nevertheless, given the limited time at disposal, the model has been developed only theoretically without empirical application. The practical utilization of the model could be object of future analysis and could be applied as source of future publications or researches. Furthermore due to the lack of financial data on the single cases described no financials are used to analyze the cases exposed. Again this aspect could be object of future research.

For a easier understanding of the paper some aspects of our methodology should be described to introduce the reader to this thesis:

The *referencing style* used is alternative and aims at facilitating the reader to smoothly follow the paper. More into detail, in this paper the main referencing model used is the *Cambridge style referencing* plus additional footnotes reporting the internet links to allow the reader to access the internet sources directly from the page with the reference.

The *literature review* – chapter 3. – is based primarily on text books on the subjects of brand extension, niche marketing and marketing and on various articles taken from numerous business reviews, among which the *Journal of Marketing*, the *Harvard Business Review*, the *Journal of Business Strategy*, the *Strategic Management Journal*, the *Journal of Marketing Research* and many others both from the Marketing and Strategic Management areas and from other areas of research. This chapter acts as starting point for the thesis and firstly, it integrates the concepts of brand extension and niche marketing into a theoretical framework and secondly it provides the reader with a concrete theoretical background to better understand and analyze the model developed and the thesis in general.

Our *empirics analysis* in included in both parts of chapter 4. In the form of examples description. In the first part of the model – *the situation analysis* – we support our identification of the problem with 3 main examples, smart cars, Red Bull, McDonald's, analyzed thoroughly from several perspectives. These cases are analyzed in detail to give the reader a clear picture of the type of firms we target with our model and to specifically analyze the problematic we described. In the second part of the model – *the solution implementation* – after analyzing each of the solutions identified, we support them with one or more examples of firms that successfully implemented the given solution. These examples are nevertheless not as carefully described as in the first part of the model, but just briefly since they solely act as back-up for our solution suggestion.

The *resulting model and the solutions provided* are derived from the examples described and the literature analyzed and have therefore not been tested empirically. Finally the solutions provided are specifically developed for niche-players, and more in particular single-product niche-players. Nevertheless, if applied by other types of firms they might prove to be successful in other contexts as well, but this aspect is left as future research proposal and was not analyzed.

CHAPTER 3. Literature review

In this chapter we define the theoretical concepts of brand extension and niche markets to introduce the reader to the topic and to provide a theoretical background for the thesis

3.1. The concept of Brand Extension

Over the last decade, among the topics connected to the *brand management* subject, increasing focus has been put on issues about *brand extension*. Brand extension, as widely discussed in the literature, refers to the attempt of an already existing brand to introduce a new product in new competitive contexts which are more (*line extension*) or less (*category extension*) linked to the core business of competence of the original or *parent brand*. As defined by Tauber (1979), brand extension, in fact, means *using the leverage of a well known brand name in one category to launch a new product in a different category*.

Whereas brand management and branding is generally considered only in the spectrum of Marketing and Communication, the role of brand management goes far beyond. The *brand* is in fact a key factor in the strategies of today's firms and corporations, which face a highly competitive and global market, driven more and more by cost and quality diversification strategies, as widely discussed by Porter (1979). In this context the brand becomes the *image* of the company and of its selling proposition in the outside environment towards not only the final consumers, but also the supplier and dealership networks and the competitors. Moreover the brand, as representative of the firm, carries the *values*, the *concept* and the *identity* of the company to the outside, it distinguishes the company from its competitors and it certifies the product's origin (Kapferer, 2004). These characteristics make of the brand a key strategic asset of a company, to be managed accurately and carefully.

The brand extensions strategies, thus, acting directly with and on the brand, require strong managerial skills and market understanding to be implemented successfully to finally preserve the brand's value and meaning.

To better understand the strategic role of brand management and brand extension practices in a company's *strategy canvas* (Kim and Mauborgne, 2005) the concept of brand extension will be thoroughly analyzed in the following paragraphs, with a final focus on its specifics in the context of this thesis.

3.1.1. Why brand extensions

As reported by Kapferer (2004) *brand extensions are necessary. They are a direct consequence of competition in mature markets and of the fragmentation of media. The only justification for brand extensions is growth and profitability.*

This rational approach on the subject derives from the attitude of part of the literature on brand management to consider brand extension and the brand itself as an abstract practice or component of the firm. The need of corporations to extend the range of their brand and its market coverage in terms of *brand image* and *brand awareness* is in fact of crucial strategic interest, but as Kapferer stresses, it should be underlined that the final goal of a brand extension and, thus, of a new product launch, finally is *growth*. In detail growth through the launch of a new product under the same brand (*brand extension*) or under a new brand (*sub-branding, co-branding*) is in fact necessary when companies:

- operate in saturated markets;
- face a too intense competition in one specific market;
- need to exploit internal unexploited productivity;
- need to diversify their portfolio;
- need to strengthen their brand in the market;
- Identify potential un-served market segments.

Based on a firm's growth and profitability perspective the focus can then be shifted towards the brand as valuable and strategic asset. The brand extension represents in fact a

very relevant strategic option to increase and expand the value of the brand. By amplifying the market share and product portfolio of a company, new *value generating streams* and *perceptions* of the brand can in fact be exploited. More into detail, the *value generating streams* arise from the transfer into a new competitive context of:

- the price-premium created in the original core business of competence;
- the consolidated relationship built with the customer-base, which results in lower customer-base development costs (e.g. advertising, brand awareness and loyalty building);
- the bargaining power in the industry and towards supplier and dealership networks, that results into a higher control over the commercial and profit margins of the new product.

On the other hand, the new *perceptions* of the brand arise from the processes of *learning by experimenting* (Vicari, Von Krogh, 1992) generated by the brand extension. Through the entrance into unexplored markets and segments, in fact, the company can firstly generate new *information* on the brand in the market place and secondly influence the *interpretation models* of this information intrinsic in the costumers (Fig. 3.1.).

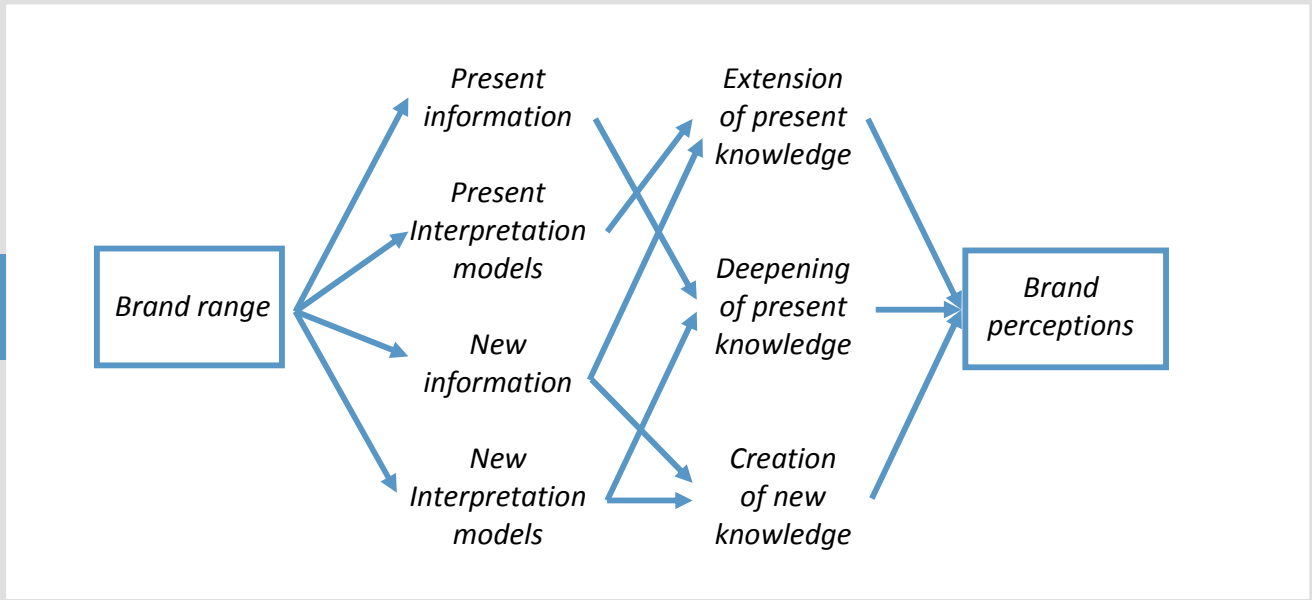

Fig. 3.1. Brand range to brand perceptions. This figure shows how the present and the new information and interpretation models about the brand can extend, deepen or create knowledge about the brand, influencing the perceptions of the brand in the consumers' mindset (Vicari, Von Krogh, 1992).

Concluding, both the creation of new value generating streams and the influence of the perception of the brand imply an enlargement and development of the relationship networks with the final consumers, and the prerequisite to achieve this objective is the ability of management to balance the focus of the brand extension strategy between the enlargement of the customer base and the improvement of the loyalty of the already acquired costumers.

3.1.2. Types of brand extensions

The concept of brand extension has been in the above paragraphs defined very broadly, but given its strategic complexity and the different extension strategies that can be implemented a more detailed analysis of the typologies of brand extension is necessary.

The most common distinction in the literature is between *line extension* and *category extension* (Farquhar, 1989). The first term refers to a brand extension into a product category where the brand is already active. This is achieved through modifications of the original product such as, for example, the introduction of a new flavor or ingredient, or of alternative product configurations to satisfy other segments of the same market. Major examples of line extensions are the launch of the Diet-Coke or the design of shampoos for different types of hair. A category extension is instead the utilization of a brand to enter another product category, like SONY successfully did with the Playstation or Apple with the iPod and iTunes.

These types of brand extension or product portfolio extension fit into the theoretical framework developed by Igor Ansoff, the product-market growth matrix (1957), as shown in figure 3.2. In this famous Strategic Management tool the concept of *line extension* reflects the characteristics of the *product development strategy* by Ansoff, whereas a *category extension* is comparable to what Ansoff defined as *diversification strategy*.

		Products	
		Existing	New
Markets	Existing	*Market penetration*	*Product Development* *Line extension*
	New	*Market development*	*Diversification* *Category extension*

Fig. 3.2. Product-market growth matrix: the concept of *line extension* reflects the characteristics of the *product development strategy*, whereas a *category extension* is comparable to a *diversification strategy.*

More specifically, Tauber (1988) identified seven typologies of brand extension strategies in the spectrum of category extensions:

- launch the same product in another form (e.g. Dove liquid or solid hands-soap);
- introduce products that contain the brand's distinctive taste, ingredient or component (e.g. After Eight desserts);
- develop and market complementary products (e.g. Colgate tooth brushes);
- offer *companion products*, namely perceived as relevant by the core product customer base (e.g. Harley Davidson lighters);
- capitalize on the firms' perceived expertise: from the consumer's perspective in terms of know-how recognition to perceive the brand as reliable and trustworthy (e.g. Canon copy machines);
- exploit the benefit or the distinctive character of the brand on the new product (e.g. Colgate chewing gums);
- Leverage the brand's prestige to enter new markets (e.g. Porsche sunglasses, Armani furniture).

This distinction shows the scope of the strategic possibilities lying in a brand extension operation. Moreover it shall not be considered as rigid, more other alternatives are in fact available and, more important, managers can mix and combine the above mentioned strategies to plan and implement successful brand extension operations. Nevertheless, recent studies (Ogiba, 1988) showed that the majority of the brand extensions are implemented in the form of line extensions and only a little percentage in the form of category extensions, given its relative higher complexity and the heavy costs implied.

Alternative widely adopted types of branding options to be considered are the *sub-branding* and the *co-branding* strategies.

Sub-branding is the combination of a brand on a higher layer of hierarchy, called the *master* or *parent brand*, with a brand on a lower layer, the so called *sub-brand*. The new subordinated brand acts on the parent brand adding to it a specific additional meaning, value or identity. This practice generates a double advantage, namely the possibility to exploit the weight of the parent brand in the consumers' mindset to commercialize, at the same time, the product in a distinctive manner (e.g. Kellog's Frosties, Courtyard Marriot Hotels).

In particular conditions a *co-branding* strategy can be more suited to differentiate the new product or product line. A firm can in fact derive higher benefits from the joint development and marketing of a product, to both share know-how and production facilities and to leverage the combined brand image of the two brands. This practice generally finds application in the mass consumer products market, where large medium-to-low branded firms exploit the prestige or image of a strongly distinctive brand to improve their sales and image (e.g. C3 Pluriel D&G).

In the literature it is nevertheless actively debated whereas these strategic alternatives should be considered as brand extension practices or as standalone branding options instead. From a product perspective, in fact, they represent a distinction from the

original brand in order to communicate different values and identities (Busacca et. al, 2006) and shall therefore not be defined as brand extensions. On the other hand, the exploitation of the parent brand can be, in both cases, considered as an extension of it as well.

For the purposes of this thesis, this detail aspect of brand management is analyzed and implemented in Chapter 5 giving the solutions possibilities description.

3.1.3. The coherence issue in brand extension

As widely debated and underlined in the literature, the brand extension strategies are based on the ability to transfer and strengthen into new competitive contexts the knowledge capital, the trustworthiness and the relationship with the costumer-base seeded into the brand. The capacity to achieve this goal, though, largely depends on the *perception coherence* between the new product category and the core category of competence of the brand, and between the latter and the product nature itself (Busacca et. al, 2006).

In the following paragraphs these concepts of coherence will be discussed through an extensive analysis of the literature and the authors of major relevance in this field of brand extension.

Coherence between categories

Firstly coherence can be defined as *product categories coherence* involved in the brand extension, more into detail as the perceived coherence between the category/ies where the brand is traditionally active and specialized and the new product category, object of the brand extension. In these terms, coherence shall first be evaluated in terms of *similarity*, namely how consumers perceive the new product as correlated or linked to the already marketed categories of goods in the product portfolio under the brand (Paolacci, 2006).

On this topic Boush and Louken (1991) demonstrated how consumers tend to transfer their perception and approach on products of a certain brand more easily the

more the new product launched displays similarities to the already existing products of the same brand.

On a wider scope, Aaker and Keller (1990) identified three main key aspects of category coherence perception by consumers:

- *complementarity*, how consumers relate different products and the possibility to jointly utilize them to satisfy a certain need;
- *sostituibility*, how two or more products are perceived to share application modalities, context of usage and needs addressed;
- *Competence transfer*, how consumers perceive the ability of the company or the brand to enter a new category of products, mostly evaluating the *know-how transfer* in the new market and/or the *ease-of-make* of the new product.

In particular, Aaker and Keller concluded that only the latter variables (know-how-transfer and ease-of-make) positively and directly influence the approach of the consumers towards the product object of brand extension. In fact, the easier it is to transfer the know-how into the new product, and the more difficult it is to design and market it, the more positively consumers react to the brand extension. On the other hand, the other two variables (complementarity and sostituibility) interact with the quality of the product. In other words, they gain relevance in the *brand extension evaluation process of consumers*, mostly unconscious, only if the perceived quality of the original product is medium-to-high (e.g. *premium* or *luxury* goods).

Also Russel et al. (1999) made extensive researches on the topic of product category coherence influencing brand extension strategies, and developed a model that defines three modalities affecting the purchase decision of final users:

- *cross-category consideration*, when different categories of products (and brands) may be substitutes;
- *cross-category learning*, when the choice of a given product is affected by a

previous experience or purchase of goods belonging to different categories;

- *Product-bundling*, when products of different categories jointly contribute to satisfy the needs of the user (e.g. personal care products).

Finally another element of influence over the coherence evaluation of consumers shall be the *technological level* of the considered product category, also defined as *technological hierarchy*.

On this topic, Jun et al. (1999), through an empirical analysis, showed how a brand extension operation towards a technological inferior business or market is differently evaluated than the opposite process. To specify, this study revealed how brands characterized by a high level of technology face lower resistances when extending their offer towards lower layers of the technological hierarchy, just as luxury brands can easily access lower markets. The authors concluded also that, whereas an expansion to higher levels of technological complexity positively affects the brand and its perception, the opposite approach does not negatively influence the brand, being the original products the most relevant in the mindset of consumers.

Of particular interest for the purpose of this thesis is also how the coherence evaluation performed by consumers is and can be influenced by the *range or scope of the product portfolio* under a given brand and by the introduction of an *intermediate* product between the *original* core category of competence of the brand and the future *final* new product to be launched to widen the brand market coverage.

On the *product portfolio range* topic, Boush and Loken (1991), in an analysis on the consumer electronics' and food's industries, identified two crucial aspects affecting the coherence perception of consumers:

- extensions placing the brand into product categories far from the original core category of competence are perceived negatively, independently from the product range offered;
- Extensions into adjacent segments or categories are positively perceived the wider

is the product range under the brand.

Moreover the paper of Boush and Loken shows a considerable difference between the two products categories considered. In fact, in the food and beverages industry consumers perceive a brand extension into a nearby product category positively the more narrower it is the product range of the brand, whereas in the consumer electronics' industry they react positively to a brand extension the larger the product offering.

The authors conclude that this opposite reactions are a result of the fact that in the food industry consumers associate a wide product range with *low quality* and *low budget* whereas they consider a hi-tech company as over-specialized and with a weaker technological know-how if it offers a too narrow range of product categories.

Referring to the second aspect – *the introduction of an intermediate extension between the original core category of competence of the brand and the future final new product category* – Keller and Aaker (1992) concluded:

- The success of an intermediate extension positively affects the perception of the later final extension only for medium-to-low quality products. For premium and luxury brands, in fact, the final extension is not influenced by eventual intermediate interventions;
- The failure of an intermediate extension negatively affects the target final extension only for premium and luxury brands (and not for medium-to-low profile brands), and a higher percentage of failures worsens the perception of the final extension.

As a final remark on product categories coherence, the role of the communication of the brand extension shall be considered. Lane (2000), in his paper "*the impact of ad repetition and ad content on consumer perceptions of incongruent extensions*", demonstrated how the perception of the brand extension can be influenced by the communication policies and strategies adopted by the company; more into detail, in his research Lane showed how the contents of the advertising campaigns and the repeated exposition of costumers to the ads can lead to a distortion of the reactions, even to brand

extensions into different product categories or not coherent with the original *brand concept* of the company. Nevertheless if the publicized product is too different or lies technologically and contextually too much outside the company's product portfolio, the influence of the communication contents and means vanishes and evokes only secondary associations connected with the *brand image* and not with the benefits associated to the brand.

The coherence between new product and brand

To properly analyze the implementation of brand extensions, apart from the coherence between categories of products, it is of primary importance to evaluate how the new product object of the extension fits into the brand image of the company, namely its coherence with the associations connected to the brand.

Keller (1998) defines these associations as associations connected with each other in the memory network of the consumers, in which the meaning of the brand is located. These elements gain strong relevance for both the Marketing managers and the consumers; the first use them to differentiate position and extend the company's brand to generate positive reactions towards the brand; the latter use them to process, organize and recall information on the brand to support and guide their purchase experience (Aaker, 1991).

In the literature, two different types of associations connected to the brand have been defined, the *brand concept* and the *brand associations*.

The idea of *brand concept*, developed by Park et al. (1991), refers to the general associations connected to a brand, namely the abstract meanings associated to a particular brand (e.g. luxury), usually derived by a certain configuration or characteristics of a product or a product line (e.g. premium price, innovative design, etc...) and by the efforts of the company to transmit these meanings to the end consumers. The brand concept, in short, places the product in the mindset of the customers and helps them to differentiate between the brands active in the same market or business. In their analysis, the authors differentiate between *icon brands* (e.g. Rolex) and *functional brands* (e.g. Timex), showing – in both cases – that consumers perform positive and better evaluations if the extension is

made into a similar product category, both in terms of productive procedures and of brand concept (e.g. the extension of Rolex into the luxury-bracelets market).

Another interesting result, in particular for the objective of this thesis, arising from the study of Park et al. (1991) is that icon brands are more easily expandable into non-similar product categories then functional brands, underlining how premium-luxury company can fully exploit their brand in their Marketing strategies. In other words, it would be easier for Rolex to enter the perfumes industry (a non-similar product category, but easily connected to prestige and luxury) than for Timex to enter the digital-cameras business (a non-similar product category, but with a highly functional branding).

The *brand associations*, on the other hand, shall be defined as those attributes or benefits that differentiate a brand from its competitors (McInnis and Nakamoto, 1990). Broniarczyck and Alba (1994) proved that such associations can reduce the effects of the *brand affect* and of the product category similarity in costumer's brand extension evaluation process.

From their study, it clearly emerges that, if two companies, one with a stronger and the other with a weaker brand in their core category of competence, expand into a new business, the consumers will prefer the new product whose brand associations are perceived as relevant in the new market as well, disregarding the brand hierarchy in the original category of competence of the two brands. Moreover the specific brand associations moderate the role of the product similarity in the consumer's extension evaluation. In other words, the market would react better to a brand extension into a very different product category that shares the same brand associations, than to an extension into a similar product category, but with a different brand values perception (e.g. Caterpillar entering the boots markets, instead of the car industry).

These implications gain relevance only if the brand considered is strong, widely known and already placed into the mindset of consumers. When evaluating a brand extension of an unknown company, costumers would in fact take into consideration only basic aspects, such as the product similarities.

In brand management focus in put also on the effects of brand extensions on the associations connected to brand, both in case of success and failure.

In the first case, Aaker and Keller (1992) revealed that the approach towards the brand generally improves, whatever the type of product launched (similar or different). Nevertheless the authors concluded that this effect can be linked only to low-to-medium perceived quality brands, whereas premium-luxury brands are not affected from successful extensions (e.g. if a brand like Chanel or Porsche successfully expanded its product portfolio into another product category, the perceived quality of its brand would not be influenced).

In case of failure, on the other hand, Loken and Roedder John (1993, 1998) traced different implications for the companies facing the consequences of their failures:

- the general associations to the brand itself would not vary remarkably, but the perception of certain attributes or benefits linked to the brand might soften in the costumer's mindset;
- The flagship-product generating the brand concept of the company is less likely to be affected from eventual failures of new products or lines.

It is nevertheless legitimate to derive the conclusion that several extension failures might in the long run negatively affect the associations connected to the brand, and maybe the flagship-product, too.

Deeper analysis showed that these retroactive effects on the brand depend on other conditions, being the following, analyzed by Swaminathan et al. (2001), the most relevant:

- the information on the brand extension shall be considered as relevant by the costumers;
- The brand associations in the consumers' mindset must be possible to be influenced and modified by the above mentioned information.

The first condition implies a strong correlation between the original and the new product, namely a perceivable similarity, whereas the second condition suggests that the associations network connected to the brand must not be too deeply rooted and thus

resistant to change. This is the case of users weakly exposed to the brand, namely consumers with low *brand-loyalty*. In other words, as suggested by Roedder John et al. (1998) the associations connected to a brand developed by loyal customers are highly resistant to change and are, as a result, hardly influenced by the information deriving by the extension of the brand into a different market or product category.

3.1.4. Pros and cons of brand extension strategies

Later in this paper we will try to evaluate and discuss the brand extension decisions made by several companies, and it is therefore important now to summarize the potential positive and negative effects of brand extensions in order to better interpret the effects of the brand extensions implemented by the analyzed firms.

When considering the advantages of brand extensions, we identified the most common characteristic as the power to *facilitate sales* of a new product. Brand extensions reduce in fact the risks perceived by customers (Paolacci, 2006) and distributors[1] being the brand name already widely known. As a result, brand extensions would *decrease the costs of gaining distribution channels*[2] and trials while increasing the efficiency of promotional expenditures for the new product (Paolacci, 2006). Using the parent brand avoids costs and risks of developing new names that also allows packaging and labeling efficiencies.

Another positive effect of brand extension is the enhancement of the parent brand image by improving strength, favorability and uniqueness of the brand associations (Busacca et. al, 2006). Moreover, improving the perceptions of the firm's credibility also helps to enhance the parent brand image. We also recognized that successful brand extensions may convey a broader brand meaning to the customers if the *core benefit proposition* and *business definition* of the company are properly clarified.

In our analysis of infamous brand extension *failures*, we recognized how these failures are linked to the potential disadvantages of brand extensions.

[1] Vice President of the Direct Material Purchase department, Volvo Car Corporation
[2] Vice President of the Direct Material Purchase department, Volvo Car Corporation

The main risk connected to a brand extension is, of course the likelihood of a failure resulting in heavy sunk-costs from the development of the new product. Another interesting aspect that we identified is that brand extensions, even if well designed and implemented, may generate a cannibalization of sales from the original core product, as discussed in the analysis of the smart brand. Finally one of the riskiest aspects connected to the brand extension strategies is the possibility to damage the image of the parent brand in case of failure.

The pros and cons of brand extensions are summarized in the table below:

Advantages of brand extensions	Disadvantages of brand extensions
Conveying broader brand meaning to consumers	Extensions are risky
Decreasing cost of gaining distribution & trial, increasing efficiency of promotional expenditures	Failure possibilities
Parent brand image enhancing	Image of the parent brand can be hurt
Increase market coverage	Sales cannibalization of the parent brand
Improving perceptions of company credibility	Consumers' confusion

Fig. 3.3. Pros and cons of brand extension: The table reports the advantages and disadvantages linked to the brand extension strategy. Source: New products and brand extension, Free University of Bolzano/Bozen.

In this section we aimed to introduce and discuss the theoretical perspective of brand extensions. The relations between the core products and new products as well as the relations with the customers have been therefore deeply discussed. However, this theoretical information is an overview of brand extensions in a global perspective, whereas in this work we aim to concentrate on the results of brand extensions of highly specialized companies, in other words niche players. Therefore, in order to better understand the concept of brand extension for niche specialized players, in the following section we define the concepts of niche market and niche player, defined as *nicher*, from a theoretical perspective.

3.2. The concept of Niche Market

According to Echols and Tsai (2005) the concept of niche can be understood through key issues of inter-firm competition. A niche represents a firm's distinctiveness relative to other players in the competitive arena. As such, a niche describes not only a firm's competitive environment, but also how it competes with others (Carroll, 1985). Thus, based on the work of Echols and Tsai (2005), it could be concluded that occupying a niche implies offering a *unique selling proposition (USP)* with a product or a set of products. Successful niche firms, also called *nicher*, usually create value by maintaining a significant competitive advantage.

The concept of niche has attracted considerable interest in the management research. A basic definition is taken from animal ecology and it implies a *way of earning a living* (Elton, 1927). Similarly, in the business context, a firm's niche can be studied by investigating how a firm differs from its rivals in terms of product offering and processes. As such, a niche is defined by the extent to which a firm's product offering or operational processes are unlike what rivals offer or practice, respectively (Echols and Tsai, 2005).

A relationship may be drawn between the ecological niche and the market niche. In both cases, organisms and organizations live in their immediate physical environment and are able to continue their life forms in a changing environment. An eco-system in biology may serve as an analogy for the macroeconomic-environment of an organization which continues its life without being threatened by the environmental forces (Lambkin, Day, 1989).

Dalgic and Leeuw (1994) also mention other definitions of niche: they defined it as a *pocket* and as *a small market that is not served by competing products*. Their own definition describes a niche *to be a small market consisting of an individual customer or a small group of customers with similar characteristics or needs*.

Due to the intensification of competition, as the niche market matures, a shake-out may occur leaving only the strongest players in game. *Niche marketing* may help companies to remain among the healthy survivors. Companies which want to survive, grow and be profitable are in fact forced to find markets which have:

- sufficient size to be potentially profitable;
- no real competitors, or markets which have been ignored by other companies;
- growth potential;
- sufficient purchasing ability;
- need for special treatment;
- customer goodwill;
- Opportunities for an entry company to exercise its superior competence.

The above characteristics may be defined as niche characteristics, as reported by Dalgic and Leeuw (1994).

More into detail, according to Kotler and Keller (2006) an attractive niche is characterized as follows:

- the customers in the niche have a distinct set of needs;
- they will pay premium to the firm that best satisfies their needs;
- the niche is not likely to attract other competitors;
- the niche gains certain economies through specialization;
- The niche has size, profit and growth potential.

Whereas *segments* are fairly large and normally attract several competitors, niches are on the other hand fairly small and normally attract only one or two.

The concept of segment brings us to the core of niche, what in Marketing is traditionally defined as *segmentation*, namely the subdivision of a market into narrower segments. A segment, in fact, *consists of a group of customer who share a similar set of needs and wants* (Kotler, 2006). Companies perform segmentation to tailor their product or service offering to the different set of consumers in the market.

Niche marketing itself is, therefore, the sub-segmentation of a segment into niches. In the literature, it is however strongly debated whereas niches are identified in the final or in the initial stage of segmentation. On this issue, Chalasani and Shani claim that *segmentation is the process of breaking a large market into smaller pieces. It is a top-down approach*, whereas *niche marketing is a bottom-up approach where the marketer starts*

from the needs of a few customers and gradually builds up a larger customer base. On the other hand Dalgic and Leeuw (1994) outline that the above mentioned view opposes to the concept which perceives niche marketing as the last or final stage of segmentation. Neither of the two views is probably correct. The moment of the identification of a niche differs in fact depending on the type of business to be considered. An established manufacturer may recognize a new niche with a *top-down approach* through the analysis of the segments where it is already present, whereas a new entrant in the market would start by identifying a niche to serve before starting its business, using thus a *bottom-up approach*.

A further analysis revealed other factors characterizing a niche in the segmentation process, such as:

- a niche is usually smaller in size compared with the size of a segment;
- a niche focuses on individuals –a so-called homogeneous group;
- A niche fulfills a specific need in contrast to a segment where the emphasis is put on being a manageable part of the market.

3.2.1. The niche player, the Nicher

After having analyzed what is a niche, it is now important to identify and define the niche players, the *nichers*.

Niching is a strategy often followed by small firms or a small division of a large company to avoid a head-on confrontation with the market leaders of larger segments. Nichers are in fact highly specialized and with a distinctive know-how in one particular area of competence that decide to serve a selected customer base to tailor one or a set of specific needs; usually with innovative products. The market share of niche players tends therefore to be low, being these firms positioned to serve only a small number of loyal customers.

Whereas differentiation can occur in terms of both price and quality, niche marketers tend to focus on the latter. They in fact offer innovative solutions, are dedicated to their customers and offer superior performance, responsive service and punctual delivery – rather than low price – as well as customer intimacy (Kotler and Keller, 2006).

Being focused on one particular set of consumers and needs, therefore, a niche specialized firm usually understands its customers' needs very specifically, so well that the customers willingly pay a premium for the products or services offered.

Of major relevance in these particular markets, is the ability of a company to identify and successfully serve the market niche. This depends on its grade of *specialization*. In these terms, Kotler (1991) considers specialization as the milestone of niche marketing and outlines different ways of specialization to choose and/or combine:

- end-user specialization;
- vertical-level specialization;
- customer-size specialization;
- geographic specialization;
- product or product-line specialization;
- product-feature specialization;
- job-shop specialization;
- quality/price specialization;
- service specialization;
- Channel specialization.

Dalgic and Leeuw (1994), in their analysis on niche marketing, defined it as the positioning into small, profitable homogeneous market segments which have been ignored or neglected by others, and this positioning is based on the integrated marketing concept and the distinctive competences the company possesses. This definition incorporates the five essential elements of niche marketing, namely *positioning*, *profitability*, *distinctive competences*, *small market segments* and *adherence to the marketing concept*. The right choice of the specialization area and an accurate focus on the five essential elements of niche marketing are therefore the key to successfully design and implementation of the niche strategy to every nicher marketer.

Nichers, however, when successful generate a strong *brand image* and *customer base* and some manage later to expand, either in adjacent or distant product categories, or

geographically, evolving into a global niche player (e.g. The Body Shop) or into a typical company offering products in wider markets (e.g. Apple).

Nevertheless, also large companies are sometimes defined as niche players pursuing and organized for a niche strategy. An example is Johnson & Johnson, the health-care company, consisting of 170 affiliates (*business units*), most of which serve niche markets. However, such a company shall be rather considered as a large company, being the only difference the fact that it controls a set of aggregated/linked niche markets in contrast to just one large market (Dalgic and Leeuw, 1994).

To generate additional value and sustain its position over time nichers focus on two main aspects, typical of niche strategies and intrinsic in the concept of niche, *long-term relationships with consumers* and *company reputation on the marketplace*.

The first factor brings us to the concept of *relationship marketing*, definable as the priority to generate a mutual benefit for both parties. Through this *win-win situation* the niche marketer can generate a major source of competitive advantage and build a barrier to deter potential competitors and sustain long-term profitability as well as customer retention and supplier relationships. More into detail, according to Copulsky and Wolf (1990) the relationship marketing process incorporates three key elements:

- identifying and building a database of current and potential customers;
- delivering differentiated messages to these people;
- Tracking each relationship to monitor the cost of acquiring the consumer and the lifetime value of his purchases.

The other concept of major importance to niche marketers is their *reputation*. In niche marketing it is in fact not only about the marketed product or service, business-reputation is the real key. A solid reputation and therefore a strong brand in the mindset of consumers is thus essential to be successful as a niche marketer (Dalgic and Leeuw,1994) and resist to the entrance of the later entrants into the targeted sub-segment.

3.2.2. Niche and mass marketing, a comparison

As a final aspect of the analysis of niche markets, a comparison between mass marketing and niche marketing can be drawn. In his analysis, Albayrak (2006) made an overall comparison of authors (Albayrak, 2006) in the field and reported the identified differences between mass marketing and niche marketing in the table reported here below. This table shows clearly the already above mentioned and discussed typical characteristics of niche marketing, namely the absence of competition and the focus on un-served minor needs of consumers.

Mass Marketing	Niche Marketing
Production based view	Modern marketing view
High amount of production	High profit margin
Standardized product	Specialized product
High competition	Less or no competition
Target: whole market	Target: a small unsatisfied group

Fig. 3.4. Differences between mass marketing and niche marketing(Albayrak,2006)

An interesting phenomenon derived is how niche marketers often evolve to mass marketers and mass marketers return to be niche marketers. It seems in fact that most companies start out as niche marketers and evolve into mass marketers as their product life cycles tend to develop into maturity. Once maturity is reached and saturation starts, innovation occurs and some former mass markets tend then to return to niche markets.

Kahn et al. (1988), moreover, argue that frequently, small segments of consumers differ from those of the general users of the product class, thus providing opportunities for *niche* or *specialty* brands. A few examples in the toothpaste market illustrate this phenomenon. Beecham Inc. promotes its Aquafresh tooth- paste to appeal to households seeking both the *brightness of teeth* and the *cavity prevention* benefit. Topol toothpaste is positioned as the toothpaste for cigarette smokers. More recently, Caffree toothpaste is being positioned as the toothpaste for heavy caffeine users. Mass marketers try on the

other hand to offer products that cover most of the needs of consumers, to cover the largest market share possible. It is the case for example of Colgate with its product the Colgate Total.

Bringing everything together, as reported by Sudharshan et al. (1995), it could be stated that a successful market niching strategy begins with the identification of a consumers' segment with homogeneous wants and needs. This segment should be large enough to support its own product but, at the same time, small enough, once the niche product has been introduced, to no longer be attractive to competitors. The market niching firm must therefore be ready to defend its product with limited resources; the close positioning of its product to the needs of its target segment provides this defensibility. Since its customers are served well by a nicher, they are no longer attracted from the offerings of other competitors. As a result, the problem for niche marketers is to find a target segment large enough to support their own product and position it such that it will exclusively serve those customers (Sudharshan and al, 1995).

The concepts discussed can be summarized in the following table:

Brand Extension	▪ Brand extensions are justified by growth and profitability; ▪ two main categories of brand extensions are line extension and category extension; ▪ extensions can potentially provide benefits to facilitate the acceptance of new products; ▪ enhance the parent brand image and improve the perception of the firm's credibility; ▪ Clarify the core value proposition and business definition of the company.
Niche Markets	▪ Niche marketing focuses on individuals rather than on homogeneous groups; ▪ to operate profitably in a niche the firm must find its target segment; ▪ Niche implies absence of competition and focus on un-served minor needs of customers.

Fig. 3.5. Check-list of the concepts analyzed in our literature review

CHAPTER 4. Theoretical modelling: *A normative Brand extension pathway for niche-players*

This thesis aims to provide a proper theoretical model to be used as a strategic management tool by companies approaching the difficult step of the brand extension through the launch of a new product or a product line.

Whereas the process of brand extension is already widely discussed in the literature and has been successfully implemented throughout the years by many *conventional* businesses, this model aims at providing a set of solutions for a specific typology of firms, across different industries and markets that failed so far to successfully implement an extension strategy. The firms addressed, due to their very core characteristics face in fact an unusual limit when performing a brand extension, and need therefore to adopt an alternative approach to the design and implementation of the extension strategy. The characteristics identified are as follows, *first-movers, niche specialized, offering a unique product, with a specific value proposition and enjoying a strong brand image.*

The model developed in this thesis is defined as *brand extension pathway for niche-players* and is divided in two main steps:

1. *problem definition*, including a definition of what we recognized as a real *paradoxical situation*, and several examples of failed brand extension by niche specialized players;
2. *Solutions description*, that analyzes the aspects to be considered in the implementation of the solutions, and the solutions themselves, described both *theoretically*, with the support of academic and business literature, and *practically*, with examples of successfully implemented brand extension strategies.

The model offers also an *implementation matrix* to link the solutions suggested with the different typologies of brand extension opportunities identified, namely the launch of *completely new products*, *adjacent products*, *secondary products* or *mass products*.

The mind-map reported in the next page graphically shows the structure of the model, divided in the steps we defined and that the management needs to follow to

effectively reach the goal of the firm: growth through a brand extension strategy. This mind-map can be used as basis around which the extension strategy can be developed (Fig. 4.1.).

To better understand the model and to provide the reader with a guide on how to apply it empirically, the following aspects will be described: *who, when, why, how* to use the model:

WHO. This model targets the management of niche-specialized single-product firms, as described in the company description later, to support them in the design and implementation of a brand extension strategy based on the launch of a new product.

WHEN. The model should be consulted and applied before the brand extension decision. Therefore, before designing the brand extension strategy the management should analyze our model and apply it if their organization reflects the typology of firms we target. A typical brand extension strategy could in fact lead to a failure, given the very specific characteristics of our *audience* of companies.

WHY. As already widely discussed, few researches have been done on brand extension for niche-players, which led several firms in the past to fail in their extension attempts. We decided therefore to develop this model to guide the management of this type of firms into this strategic process.

HOW. The model should be applied as shown in the mind-map developed (Fig. 4.1.). First in STEP 1, the reader analyzes its firm and determines if it fits into our firm categorization. If it does, we provide a set of bad management practices to be avoided as introduction to the real design of the brand extension strategy. In STEP 2 the reader shall define the typology of brand extension, namely the launch of *completely new products*, *adjacent products*, *secondary products* or *mass products*. Once the objective is clear, using the matrix provided, the best suitable solution or solutions bundle can be chosen from the matrix developed, that correlates the solutions to the extension typologies.

The steps to be followed are analyzed in detail in this chapter and will provide academics and practitioners as solid guideline to the application of our model.

START. FIRM POSITION: *Growth through Brand Extension*

STEP 1. SITUATION ANALYSIS: *The paradox*

Product characteristics analysis

- *First-mover companies;*
- *Niche specialized;*
- *Offering a unique product;*
- *A specific value proposition;*
- *Strong brand image.*

Avoid bad management practices

- *Management overconfidence;*
- *Underestimate competition;*
- *Extend too far;*
- *Overestimate brand strength;*
- *Neglect Marketing support;*
- *Generate customers' confusion.*

STEP 2. SOLUTION IMPLEMENTATION

1. EXTENSION OBJECTIVE CHOICE

- *New product*: a new niche-product differing from the original one;
- *Adjacent product*: a product extension of the original offer differing for minor physical characteristics;
- *Secondary product*: complementary or accessory products;
- *Mass product*: a completely new product to attract a large customer base.

2. SOLUTION SELECTION

- *Solution 1. Value proposition transfer;*
- *Solution 2. Create a new Blue Ocean;*
- *Solution 3. Gradual product development;*
- *Solution 4. Brand repositioning;*
- *Solution 5. Alternative extension strategies: co-branding / sub-branding.*

3. OBJECTIVE-SOLUTIONS MATRIX

	New product	*Adjacent product*	*Secondary product*	*Mass product*
1. Value proposition transfer				
2. Create a new Blue Ocean				
3. Gradual product development				
4. Brand repositioning				
5. Co-branding / Sub-branding				

Fig. 4.1. The Model. This mind-map can be used as management tool to define the best suitable pathway to extension according to the firm's characteristics, extension objectives and solution possibilities.

4.1. STEP 1. The situation analysis

The goal of the first step is to describe the typology of the companies that should adopt the model developed in this thesis. As it will appear clearer at the end of this section, these characteristics drive the success of the firm in the first place but become at the same time their biggest limit when it comes to expand into greener fields. The conflictual nature of these characteristics results in a real *paradox* for the management, which faces a situation where the success factors of the company at the same time unexpectedly obstacle its growth and survival. The characteristics identified are the following:

- *First-mover companies;*
- *Niche specialized;*
- *Offering a unique product;*
- *A specific value proposition;*
- *Strong brand image.*

From the above listed elements it is now possible to extract a definition of the firms' target audience in our model:

> *First-movers firms that serve a specific market niche or segment with a unique product, whose intrinsic physical characteristics incorporate a value proposition that satisfies an un-served latent need of a distinct customer base.*

Before designing the brand extension strategy, or more simply the launch of a new product, the management shall therefore determine if their firm has this set of specific characteristics. If it does, the later steps of this model should be implemented to successfully perform a brand extension, if not, the typical tools for brand extensions are applicable.

First movers

The concept of *first-movers* is taken from the Marketing literature, and refers to firms who first enter into a new market or segment with an innovative product. Being the pioneer on a market has many advantages but can generate unwanted risks and difficulties.

As outlined by Kapferer (2004) *the first brand to appear in a new segment, if it proves to be effective, has the advantage of being the first player in the market. It becomes the nominal reference for the thus innovative product and maybe even the absolute reference*. This not only ensures the company with a solid customer base but it can even result in a monopolistic presence on the given segment if *later entrants* – assuming there will be any – will not be able to capture market share. This is what Kotler, in his famous publication *Marketing Management* (2006), defined as the *pioneer advantage*.

However the risks implied in this strategy are higher than any other usual product launch. Launching a new market means in fact high advertising and communication costs, to be added to the high development costs of the product itself, given its innovative character. When marketers decide to adopt this strategy they must assume that the future profits deriving from the monopolistic status the company will enjoy in the early stages of the new market, will offset the risk of failure and its costs.

In our case, the companies analysed are or were successful first-movers in their market and not only gained an iconic status in their business, but also managed to thrive and resist to the new player that entered in their niche segments.

Niche specialized

As already outlined in the previous chapter a niche can be defined as *a small market consisting of an individual customer or a small group of customers with similar characteristics or needs* (Dalgic and Leeuw, 1994). By offering a unique product in a specific market segment the company focuses solely on given needs of the marketplace on the one hand and on specialized core competencies within the company on the other.

Acting as first-movers in an un-served market niche allows the firm to access what Kim and Mauborgne (2005) defined as a *blue ocean*, namely *creating a market place where there are no competitors, making the competition irrelevant*.

The typology of companies addressed by our model managed to focus on one niche and became profitable in it, in some cases expanding it to transform the niche into a mass market. An example of niche player that managed to expand its niche into a mass market is McDonald's that turned the fast-food segment from a niche to one of the most lucrative segments in the food industry today.

The unique product

To gain the benefits of the pioneer advantage it is thus implied that the product itself, and more specifically its characteristics and features suit the *latent market expectations*. The product offered must in fact not only be innovative, as many who failed were, like for example the Apple Palm, but must serve what in the literature is defined as a *latent need* of consumers; from this term the above mentioned concept of latent market expectations. Put in business words, a company *should aim to offer consumers something they want, but which they had never knew they were looking for and that they perceive as they always wanted it when they receive the product* (BMW Innovation Management department's Mission). This can be expressed as the *value added to consumers* that the product offers, where value is the ratio between the benefits and the costs consumers face to acquire the product (Kotler, 2007). In absence of this value added the seller fails in his attempt to attract the customers, who will be firstly confused by the product and as a result they will not be interested in it.

Therefore, when the product, or service, is successful, it is a direct consequence of the *physical characteristics* or configuration of the product, as defined by Park et al. (1991), that actually satisfy the consumers' needs. In practical examples terms, a *smart fortwo* sells thanks to his compact size and ease to park, a *Red Bull* sells for its energetic effects, etc... These characteristics drive sales – one can buy any type of car, but chooses a smart for its specifics – and generate the associations that customers build with the brand of the product. These associations are then translated into more abstract concepts, for example the *smart* customers do not buy just a *micro car*, they buy a *room-concept*, and this is what is called the *value proposition* (Kotler, 2007) of the product and of the brand.

The companies analysed in our thesis managed to accomplish the difficult task to generate a value added for consumers bringing on the market absolutely innovative and requested products, of which no one else thought before. Their products' characteristics are new and innovative; they offer a perceivable value proposition and are unique in their type. This allowed them to quickly grow in their markets and build a strong brand image and concrete brand associations to the benefits offered by the product.

In particular these companies, offering one single product are ultimately associated with it and are perceived as *one-product brands*. In some cases, the offered product or service is so specific that no equivalents can be found on the market, and the product is not a product only anymore, but it becomes a product category itself, of which it is the sole

representative at all. This typology of companies has been defined in the past through the neologism *branduct* (Swiner, 1979). The term branduct – *branduit* in French as defined by Swiner – is a contraction of the English word *brand* and *product*. These types of goods are so unique that they do not have any other definition other than their brand name (e.g. Post-it, Mars) (Kapferer, 2004).

The value proposition

The value proposition is what Lanning (1998) defined as the basket of benefits a firm promises and offers to its customers. This is necessary to generate a source of competitive advantage, as widely discussed by Porter (1979) in his writings, to differentiate from competitors and attract customers. The concept of value proposition is therefore a necessary evolution of the concept of *unique selling proposition (USP),* necessary because in the today's business environment companies need to offer a bundle of benefits and not just a single feature to remain competitive.

The companies that fit into our category managed to generate a unique value proposition that goes beyond the single feature of the product, as described above.

This value proposition becomes the *one-concept* that the company offers to the market and that differentiates it from the crowd.

Strong brand image

As a result of the above mentioned factors this type of companies easily gain a strong brand image in the consumers' mindset, especially in their niche or segment of competence, where the unique value proposition offered makes the brand of the firm a synonymous of this proposition and it is strongly recognizable in the market. Moreover, the success of the firm is directly transmitted on the brand itself, further strengthening the brand perception.

Nevertheless the brand is associated solely to the *one-product* and the *one-concept* offered by the firm. The brand Mars for example directly evokes the idea of a chocolate bar, whereas a more diversified brand such as Nestlé is associated to a whole set of products and has therefore more space for further diversification. As described later this effect generates both benefits and threats for the firm producing the product.

In particular the companies we address have certain similarities, as a consequence of

the above described factors. First of all being first movers in their segment or business they tend to be perceived as *innovative* and *unexpected*; being specialized transmits to the outside a sense of *strong competence* and *know-how;* and of course the brands are strongly linked, as stressed above, to the *value proposition* of the product offered, which differs from firm to firm. For example IKEA and Red Bull are both perceived as innovative and modern, but IKEA recalls *low prices* and *design quality*, whereas Red Bull recalls *energy* and *extreme*.

According to the previous pages it seems nevertheless that these characteristics lead only to success and strong sales and, in the first place, to the building of a strong brand image. Unfortunately these same factors that created the success of the brand carry a heavy burden with them, which management must face in the later stages of the development of their *first-mover niche specialized one-product companies*.

To better understand this point, it is important to analyse if the brand and its meaning work outside their unique environment. Many practical examples showed that such specialized brands suffer when adopted outside their core field of competence. Consumers perceive these brands so narrowly that they feel confused when the firm tries to expand the brand outside its original boundaries. Numerous examples of such companies can be cited to support this thesis. Life Savers, the globally known hard-candies brand never managed to sell any product outside the candy market, neither soft-drinks, nor ice-creams, products relatively close to their core product; Chiquita, the famous bananas retailer never managed to sell any other type of fruit, nor even banana derived goods. These examples are just an insight to this problem, and management must seriously consider this limit before deciding to enter a brand extension process.

This situation, as already mentioned above, is a real *paradox*. These companies in fact remain *locked in* one single product category or in one niche, the only market-place where their brand, very strong and known, is valuable. Using a metaphor, this paradox could be described as *a castle on a hill under siege*. The hill protects the castle, but under siege the population and the army are blocked in the castle and have no access to food and water to survive. What protects the castle, the brand in our case, limits therefore its ability to survive in case of difficulties and to grow in case of need of expansion.

Nevertheless, a failed product launch or brand extension is a fact the industry faces on a daily basis. Robert McMath, a former Procter & Gamble executive, in fact, once stated that *it is easier for a product to fail than it is to survive*, therefore management should take

into account that some product launches will fail. As data show, in fact, nowadays around 80 percent of all new products fail upon introduction and a further 10 percent disappear within 5 years (Haig, 2003). Nevertheless these data should be contextualized, due to the different consequences they can have for different players. When Unilever fails to introduce a new product, the size and financial strength of this corporation allows for failures to be absorbed, when smart cars failed in its brand extension attempts, after 3 years the company was forced to file bankruptcy. For this reason the brand extension choice and design is of crucial relevance for the type of firms we are addressing.

In addition to what exposed here above, to thoroughly describe the problematic 3 major relevant examples of companies fitting into our categorisation which failed with their brand extension strategies will be analysed in the following section.

4.2. Examples of failure

As stated, to describe the problematic, 3 major relevant examples of companies fitting into our categorisation, which failed with their brand extension strategies, will be analysed in the following paragraph. The scope of this section is to empirically support our thesis and to help other companies, using the proposed model, to avoid the mistakes made by similar companies. The main companies analysed are *smart cars*, *Red Bull*, *McDonald's* and other minor examples.

The analysis of the examples follows a precise methodology divided in 5 main parts and focuses on the characteristics defining the typology of firms addressed, as already widely discussed in the previous section:

- *firm overview;*
- *brand analysis, product → value proposition → brand;*
- *failed brand extension analysis;*
- *reasons of failure description;*
- *Lessons learned, key behaviours to avoid.*

From the described examples the problematic, as described previously, will be empirically supported and described.

4.2.1. Example 1: smart Cars

The idea of the *smart car* was developed by the Swiss watch manufacturer Swatch that named the car the *Swatchmobile*. The later name smart (with no capital letters) was then designed together with Mercedes-Benz and it is an acronym for *Swatch Mercedes ART*[1].

The objective of Niclas Hayek, CEO of Swatch was to launch a car with innovative features (in particular environmentally friendly technologies and the ease of parking) and that could appeal to young people, both in terms of price and design.

After approaching several established car makers such as General Motors and Volkswagen to start the development, the production and marketing of the car, Hayek found a partner in the former Daimler-Benz. In 1994 Swatch and Daimler-Benz started a joint-venture and founded the Micro Compact Car AG (MCC AG), they built the factory complex known as the *Smartville* in Hambach, France and soon after they started production of the first models, called the *smart city-coupé*[2].

The smart city-coupé was launched in 1997 at the IAA in Frankfurt, Germany and it was successfully marketed in 9 European countries within one year from its première.

Nevertheless, Daimler-Benz proved to have different interests and objectives then Swatch for the new-born generation of micro cars. The first designed model lacked in fact of eco-technologies, being equipped with a common petrol engine. This fact and the heavy losses experienced in the first stages of the development of smart cars moved away Swatch, who pulled out from the joint venture and left the project in the hands of Daimler-Benz, who renamed the car the *smart fortwo*.

In the years later the different vision that Daimler-Benz had for smart materialized with the launch of other two models under the brand smart, the *smart roadster* and the *smart forfour*, completely outside the initial concept of the brand smart.

This move proved to be one of the most remarkable failures in automotive industry. In 2006, in fact, after dwindling sales, the now called smart GmbH was liquidated and its operations were absorbed within the Mercedes-Benz automobile group, part of Daimler-Chrysler. Smart GmbH lost nearly 4 billion Euros from 2003 to 2006 and all models, except the initial model, the fortwo, were discontinued and withdrawn from the market.

In this context the only success remained the original model. The two-seater fortwo

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[1] Internet link: The Free Dictionary: smart automobile
[2] Internet link: The Free Dictionary: smart automobile

was sold over 750.000 times in over 25 countries all over the world. Moreover, it was just introduced overseas in the North American market to further geographically expand the brand Smart.

Brand analysis: smart

As widely discussed in the previous chapter to better analyze the value proposition and the brand equity of the typology of companies this thesis aims to study, it is important to start from the product and more specifically from its characteristics.

The product

In the mindset of most consumers smart is the two-seater smart fortwo. Its appeal derives from its ease to park given its length of just 250cm, just as wide as one parking slot in Europe[3]. This characteristic, together with its very narrow curve angle, its two-seats-only feature and its fancy design make of the fortwo the perfect urban car, quick in the city and easy to park. Besides these facts the fortwo is so special and had such a success because it is the only car in its segment. The shortest car on the market after the fortwo is in fact the Toyota Aygo, which measures 343cm, almost 1 meter longer then the little smart. As only representative of the *micro-car* segment, the smart became thus an icon in its type and it soon became object of interest and curiosity.

The value proposition

The unique selling proposition behind the smart is therefore its *room-concept*. Although its out of the schemes design made it more appealing, the real selling driver of this model are finally its urban characteristics, with the size in the first place[4]. Together with its *functionality* smart offers *unexpected solutions*, *innovation* and *youth appeal*. These factors represent the value proposition of the brand smart itself and drive the success of this micro-car.

The brand

The brand smart is therefore a function of the product characteristics of the fortwo

[3] Confidential material: Daimler Ag market research report 2008
[4] Confidential material: Daimler Ag market research report 2008

and its value proposition. The brand name given was in fact *smart* in all lowercase letters, stressing the smart and innovative attitude of the company, moreover the brand logo itself denotes the product characteristics, with the letter *C* standing for *compact* and the arrow for *forward thinking*. More specifically, within the company, the logo is meant to incorporate the 3 main aspects that diversify smart from the crowd, *functionality*, *innovation* and *joy of life*. These values are the divided in further sub-sets used by the company to design and implement marketing and communication strategies[5].

This example clearly shows that, for product-branded companies, the *product characteristics*, the *value proposition* and the *brand equity* are highly correlated and define the image of the company on the market. To develop and launch a new product the company must therefore rely on these core factors to be successful and to fit in the brand image.

Failed brand extension analysis: smart forfour and smart roadster

The success of smart was on the eyes of all analysts and industry experts. In 2003, in fact, just 5 years after its launch the fortwo was sold 500.000 times just to privates and became one of the most interesting advertising means for many companies. Moreover its curious design and bright colour combinations made the smart models very visible on the streets, increasing the momentum around the brand smart.

As a result, in just a few years the smart brand became an icon in the automotive industry thanks to its innovative and urban character. Well aware of the fact that gaining popularity so quickly in such a competitive industry like the car industry is extremely difficult, the management of smart and Daimler-Chrysler decided to quickly exploit this success and expand the product range of smart. The goal was, in fact, to make of smart an established brand in the micro-small car segment based on its innovative and stylish appeal.

What on paper seemed to be the logical extension of the brand smart, exploiting its success, resulted to be an over-confidence practice of the management that severely damaged the company.

Aiming for further growth and profits and being the European market for the smart fortwo close to saturation smart launched therefore two new models, distant from the core concept. In 2003 smart premiered its *roadster* a two-seater roadster powered by the same engine of its urban predecessor, and in 2004 smart launched the *forfour*, a four doors model

[5] Confidential material: smart cars internal marketing documents.

developed with Mitsubishi meant to address the most profitable but most competitive automotive segment, the hatchback-segment or golf-segment.

The following chart[6] shows how these two new models not only sold very poorly (about 100.000 units in total) but also how they severely affected the sales of the flagship product, the fortwo, through what in the literature is called a *cannibalization effect – what happens if one part of a company grows by taking sales from another*[7].

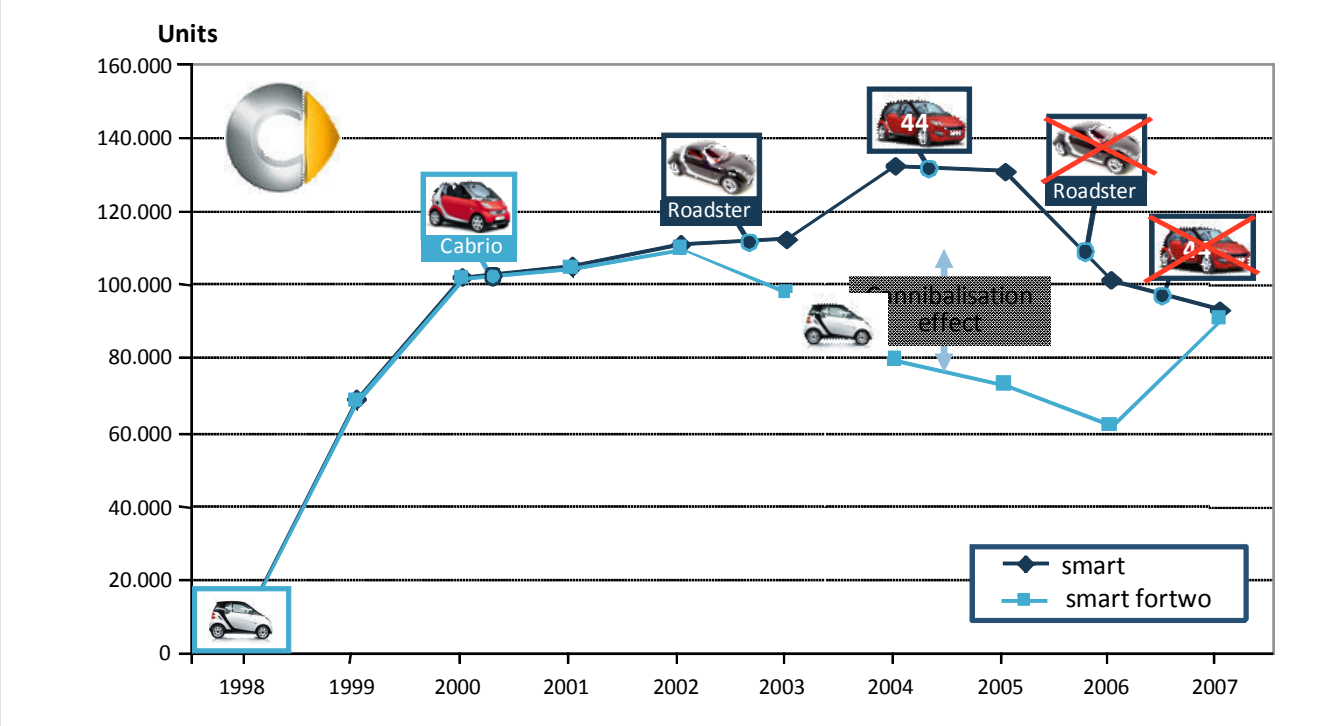

Fig. 4.2. smart Cars sales figures and product launches. This chart shows the cannibalisation effect that resulted from the launch of the smart forfour and smart roadster, and the scarce sales of these two models over their short presence on the market. *Source: Daimler AG market analysis, summer 2008.*

To better analyze the reasons behind this failure of brand extension the main factors that heavily affect brand extensions in this case.

Reasons of failure description

Management over-confidence

The quick success of the brand smart led the management to think that other products would easily fit into the brand and that exploiting the smart's dealership network in place the commercialization of the new models would have been just as easy and quick as it

[6] Confidential material: internal Daimler AG market analysis, summer 2008
[7] Internet link: Moneyterms: cannibalisation

was for the fortwo model.

Although no literature is to be found on this topic, signals of management over-confidence can be easily derived from the implementation of this brand extension strategy. Firstly for both the roadster and the forfour models the management insisted to use common components and to save on costs. In the case of the roadster, typically a sportier car, smart mounted the 800cc motor of the fortwo, making it very unlikely to sell. In the forfour case, smart outsourced the development to Mitsubishi, which was currently developing a model called *Colt*, to exploit the Colt platform and bring the forfour to market very quickly without really thinking about the selling proposition of this model. Other signals of over-confidence are the very low budget dedicated to advertising and marketing to launch these models.

The lack of adequate market research, technical development and marketing of these models and the speed of the whole process of brand extension are thus the clear representation of a quickly made brand extension strategy plan, as a result of the management over confidence in the brand strength and appeal. This is evident if we consider the development of a new model requires nowadays around 7 years[8], whereas the smart roadster and forfour were developed in around 2 to 3 years.

Another signal of management overconfidence was the underestimation of the competition. Pretending to enter a new segment with no proper communication is in fact a huge mistake in the automotive industry, one of the most competitive markets nowadays and characterized by close-to-zero margins due to the intense price competition and internationalization of manufacturers. In particular the hatch-back market, target of the smart forfour is the most competitive. Each car manufacturer, made exception for the super-premium producers such as Ferrari and similar firms, occupy this segment and aggressively compete through the continuous innovation of their models. Without a concrete prior positioning of the forfour smart launched therefore a project destined to fail. Leveraging on the brand's strength is in fact not enough in such a context.

Product-brand inconsistency

As stressed above smart stands for *functionality*, *innovation* and *urbanity*. It is thus clear that a roadster and a hatchback model don't fit into these values. Overseeing the meaning of their very own brand, the management relied only on the *logo* of the brand and

[8] Confidential material: BMW internal product development process pathway

not on its values, one of the most dangerous mistakes in brand management. As outlined by Aaker (1991) in fact a brand must be supported by consistent product developments and communications to remain strong.

Launching products outside the brand's spectrum led in fact to poor sales, usually only to loyal customers, and to *confusion* in the consumer's mindset, which cannot suddenly re-associate the brand to new values and features. This was particularly true for smart, a very young company, whose brand is strong but still not as mature and established to perform sudden and distant brand extensions.

In addition consumers where not expecting such a model from smart and were therefore not going to the smart dealerships when interested in a roadster or a 4-doors model. This aspect, in conjunction with the modest advertising campaign implemented by smart proved to be among the most important failure drivers.

Lessons learned, behaviours to avoid

From this failure we identified therefore several factors that lead to the failure of this legitimate but unfortunately bad planned extension strategy.

First of all the management, blinded by the quick success of the brand smart, designed a *too quick brand extension* without considering how consumers could react and maybe more importantly the effects on the organization smart, forced to declare bankruptcy because unable to absorb the costs and losses generated.

In *branding* terms then *the company overestimated the power of their brand*, and did not consider its *age.* smart was and still is in fact a young brand and needs therefore time to settle before extension, especially in distant product categories.

As final remark it important to stress that *competition matters*. The more intense and crowded is competition and consumer groups in one segment the more a firm must invest to position the launched product. Moreover, for such a small player like smart, entering competitive markets controlled by financially huge producers is a too risky business, being unable to compete in case these players would try to expel the new comers from their market.

4.2.2. Example 2: Red Bull

In year 1982 the Austrian businessman Dietrich Mateschitz, working for another company at the time, came across a cheap Thai tonic called *kruting daeng* used by factory workers to remain awake during the long working shifts (Kumar, Linguri, Tavassoli, 2004). Just after 2 years, in 1984 the Red Bull brand was launched in Austria, setting up a new category of soft beverages, the so called energy drinks.

The company was created by Mateschitz and Chaleo, the original owner of the Thai drink with an investment of $500.000 each. In 2006, only 20 years later, the company generated more than €2.6 billion in turnover selling in over 130 countries around the world (Dolan, 2005). In 2004 Red Bull was market leader in its segment, controlling the 70% of the energy drink market all over the world.

After reaching a global recognition of their core product, the Red Bull energy drink, the company began to invest more in research and development as well as in diversification (Mateschitz, 2002). In 2003, in fact, Red Bull launched the sugar-free version of its famous energy drink and in 2004 a bottled water with the Red Bull logo was launched targeting the underground market of *concept parties* such as the 24 hours long full moon parties (Kumar, Linguri, Tavassoli, 2004). Since 1987, however, the only remarkable and open to speculation product diversification is the recent launch of the *Red Bull Simply Cola* in 2008. This carbonated cola drink contains water, sugar, carbon dioxide, caffeine from coffee beans and other natural ingredients and flavours. The company defends that its Red Bull Cola is providing *a strong and natural alternative to traditional colas* (Gschwandtner, 2004).

Brand analysis: Red Bull

The Product

In order to adapt the original Thai energy-drink to the western markets the now famous Red Bull had been carbonated and the name Red Bull was chosen. However, original elements such as taurine, caffeine and a carbohydrate called glucoronolactone remained in the blue silver colours 250 ml can. For this reason the product was subject to several approval tests in many countries, especially because taurine hadn't been used in any other

approved drink before[9].

Red Bull is today still an iconic energy drink and it is the undisputed market leader in Europe and USA[10]. Mateschitz managed to start a complete new segment in the soft-drinks industry, one of the most lucrative and competitive segments of the foods and beverages industry.

Value Proposition and Brand

Before analyzing the product diversification strategy of Red Bull, recognizing the concept and value proposition and the strategy of the brand will help to examine the product. Red Bull specifically targets energetic young adults and it achieved a wide success in a short while. To gain this huge and quick success Red Bull invested in fact a high portion of its revenues in marketing in order to build and strengthen the brand. Just in year 2004 Red Bull spent in fact $600m in marketing and advertising, 30% of the total revenues of the firm, Coca-Cola spent the same year only the 9% of its total revenues in marketing (Dolan, 2005).

The well known Red Bull slogan is *Red Bull gives you wings* to underline the energetic and extreme character of its drink. To support this message Red Bull sponsors hundreds of athletes, mostly of extreme sports, it organizes different competitions like the Flug Tag (an acrobatics airplane challenge), soap box races and other similar competitions and it purchased sport teams such as F1 and Nascar racing teams, football and ice hockey teams. Red Bull was also among the few brands to use the virtual world and video-game sector, cooperating with major players in this industry, such as Sony Playstation (Lindstrom, 2004).

Moreover to further involve the young generations with the brand, the company uses students as brand managers for colleges, in order to organize parties and constantly supply the student and youth organizations with its drinks. The non-alcoholic drink Red Bull is in fact popularly consumed with vodka in clubs and bars.

This usage of untraditional anti-brand strategy led the company to be promoted and recognized successfully among the targeted Generation Y, people born after 1981[11]. According to Results of research made by Foscht et al. (2008), in fact, the degree of familiarity of the surveyed people with an average age of 21.5 from UK, Singapore, Austria, Germany, Netherlands and USA with the Red Bull brand is 99-100%, while the average consumption of the product over a two-week period ranges between 0,1 to 0,4 cans.

[9] The Powerful Sales Strategy behind Red Bull, Gerhard Gschwandtner, September 2004, Selling Power.
[10] Internet link: Zenith International (2007) , *Global Energy Drinks*, Press Release, November 2007
[11] Internet link: Red Bull Company Profile, Frequently Asked Questions

Although there are minor different perceptions of the brand in these countries, Red Bull managed to position its brand in the same way across different countries and continents.

The value proposition of Red Bull is thus a result of the energetic characteristics of the product and of the massive marketing machine that the management managed to put in place throughout the years, as perfectly summarized in the successful slogan *Red Bull gives you wings*. Energy, extreme, young are therefore the core values that Mateschitz and his partners associated to the product and more important, the brand Red Bull.

Failed brand extension analysis: Red Bull Simply Cola

The *Red Bull Simply Cola* was launched in 2008 and it is currently promoted with the slogan *Strong and Natural*. The main feature of the product is that it contains only 100% natural ingredients as clearly stated on the package[12]. The Red Bull Cola also promises energetic effects as the pioneer energy drink does, however the promotion campaign focuses only on the natural and chemical-free structure of the product. Only in the UK, the company spent £2m to promote the new Simply Cola Brand during the launch phase (Marketing, 2008).

Reasons of failure description

Product-brand inconsistency

The perception of the Red Bull brand is nowadays of a chemical product. There are in fact numerous arguments and articles about the side effects of the drink on human health[13]. The target consumer group of the product is thus considered to be the less concerned about health issues[14]. Consequently, the launch of a new product highlighting its natural ingredients doesn't fit perfectly with the image of chemical but energetic that Red Bull still has. In addition, Red Bull is still considered just as an energy drink, causing further scepticism towards the Simply Cola. In one interview the president of Havana Beverages Alexander Nixon stated: *I think Red Bull Cola as an energy drink, whether it is or it isn't*[15]. The editor of the monthly trade journal New Nutrition Business, Julian Mellentin even believes that this

[12] Internet link: Red Bull Cola Website
[13] Internet link: Combining alcohol and Red Bull reduces the 'perception' of impairment, Bio Medicine
[14] Internet link: BBC News, Health 'the top worry as we age'
[15] Internet link: Industry insiders unsure of Red Bull's "Simply Cola"

new product could confuse the target consumers:

"If it is 'strong and natural', that sounds like a natural alternative to Red Bull, which won't appeal to many existing Red Bull consumers while association with the Red Bull name will be a turn-off to the natural food consumers." [16]

Red Bull also faces problems with retailers, as clients of the brands. According to the company in fact, retailers are reluctant to place the Red Bull Cola with other colas; instead it is placed in energy drinks section. Gavin Lissmore from Red Bull declared that moving Red Bull Cola to cola category would increase its sales by 10%[17].

Competition and Management overconfidence

Another concern to be discussed regarding the launch of the Red Bull Simply Cola is how the cola market is mainly dominated with giant brands and distribution channels. Red Bull managers' overconfidence on their brand recognition could be the reason for attempting to enter a market with a product *which doesn't feature the core elements that make their flagship work*[18]. Additionally there has been decrease in the cola market over the last years (Coca-Cola sales fell 3% in 2007), while there was an increase of 30% in the energy drinks segment[19]. Finally the results of past attempts by other companies to participate in the global cola market to compete with Coca-Cola and Pepsi are mostly far from success, as the huge Virgin-Cola failure demonstrated. It is also a matter of fact that these two huge companies are now trying to participate in the energy drinks sector, becoming a potential new threat to Red Bull in its core segment of competence.

False targeting

As a final remark, the price of the product was set higher than the other carbonated drinks, and this fact could lead to the idea that Red Bull Cola targets an older consumer group. However the contrast with its brand image, more directed to the younger generations and the marketing strategy of Red Bull, based on underground anti-branding instead of traditional mass advertising campaigns, would represent an obstacle to reach this consumer group.

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[16] Internet link: Cola copy-catting may foil Red Bull
[17] Internet link: Retailer reluctance limits Red Bull Cola, bnet, 26 July 2006
[18] Internet link: Red Bull Cola Website
[19] Internet link: Cola copy-catting may foil Red Bull

Lessons learned, behaviours to avoid

The market attractiveness of a new product should be evaluated well before the extension decisions. In the Red Bull Cola case, the existing competition, the very strong market leaders in cola market as well as a decreasing market constitute relevant hindrances to the potential success of the product that the Red Bull management did not consider.

The chosen name for the extension product should reflect the aimed image of the new product. Red Bull Cola uses the Red Bull name which is highly related with its chemical ingredients and its energetic feature by customers. Moreover the usage of the same package of the energy drink limits the effectiveness of the *natural slogan* of the product, being considered as an energy drink when seen on the shelves in the shops.

The companies shouldn't overestimate the assets of their brand Red Bull, which was very successful in energy drink sector. In addition to its specialized and different marketing style, the fact of being pioneer in sector also assisted Red Bull in its success. On the other hand the Red Bull Cola is not a pioneer product in the cola market, and it proposes no strong incentives to change purchasing practices, currently in favour of the strong competitors Coca-Cola and Pepsi.

The results of the brand extension should be evaluated as well. While the success of Red Bull Cola is questionable, in case of a significant failure or even in case of its success to implement *strong & natural* image, this strategy could cause a dilution of the Red Bull's core product's image. Since each brand extension gives a clue about the future of the company, the earnings of the brand extension should be therefore present, especially in a long-term perspective.

4.2.3. Example 3: McDonald's

When we launched "I'm lovin' it", if nothing else we shocked the world with our new approach. Larry Light global chief marketing officer, McDonald's

McDonald's started what it is nowadays known as the fast-food industry and it the world's #1 fast-food company by sales, with about 32,000 restaurants serving burgers and fries in about 120 countries. The popular chain is well-known for its hamburgers, cheeseburgers, chicken products, French fries, breakfast items, soft drinks, milkshakes and

desserts. Most of its outlets are free-standing units, but McDonald's also has many units located in airports and retail areas. Nearly 80% of the restaurants are run by franchisees or affiliates. Worldwide, McDonald's is the largest franchised food service organization. Every day McDonald's provides food and beverages to nearly 43 million people per day worldwide.[20]

Despite the fact that the fast-food industry is today a sector on his own, characterized by a huge turnover and millions of clients every year all over the world, it started in 1940, when the brothers Dick and Mac McDonald opened their first revolutionary restaurant. What started as the *speedee service system* became one of the most loved typology of restaurant concept of the 20th century that shaped and influenced the eating habits of several generations all over the western world.

Brand analysis: McDonald's

The product

The concept of fast-food is based on the idea of offering a fast meal at low prices. At the beginning the McDonald's restaurants offered burgers and similar and throughout the years the company expanded its meals offer finally covering most needs and taste, still offered with the fast-food concept.

Nowadays McDonald's is committed to providing its customers with food of the highest quality as a result of the numerous critics moved from the public opinion on the lack of healthiness and quality of its products as the chain drastically expanded geographically. As the chain evolved the secondary characteristic of the offer of McDonald's became the homogeneity of taste across regions and countries (a Big Mac shall taste the same in London as in Tokyo or New York).

The value proposition

McDonald's has evolved into an international, multibillion-dollar quick service restaurant industry. Hamburgers and fries remain the mainstay of its business but central to the brand's success has been a menu that constantly evolves and expands to meet the needs of changing consumer lifestyles and eating habits. The company has a unique value proposition that changed the life of entire generations and the consumers began to associate

[20] Internet link: Hoovers

themselves with a particular lifestyle imposed by McDonalds. The key to the company's success has been its capacity to touch universal consumer needs with such consistency that the essence of the brand has always been relevant to the local culture.[21]

The brand

The McDonald's brand encompasses its *golden arches* logo, its packaging and the way the brand name is featured on its burgers, staff uniforms and throughout its restaurant outlets. In addition, the brand is built around the company's reputation for efficient service, consistent offering and taste. All of these characteristics impact upon customers' perceptions of the brand and the meaning they attribute to it. So, brand perceptions affect customers' buying decisions (Simos, Dibb, 2001).

In 1996, McDonald's was rated the world's greatest brand in a publication by Interbrand. *Nothing compares with McDonald's for the power of a branding idea, the skill of its execution, and the longevity and width of its appeal*. The study also pointed out that despite having its roots in the US, McDonald's has become an accepted citizen of the world[22].

The McDonald's brand is highly recognizable and is mainly associated with speed, convenience and taste consistency. McDonald's is much more than just food and the way of getting this food fast. It's a unique value proposition both for children and grown-ups that is mutually understood and accepted by both parties: customers and the company.

McDonald's is, of course, much more than an ordinary fast-food chain. It is a cultural mirror. The development and expansion of the fast-food *niche* reflect in fact the evolution of the American and the urban society of the western world eating habits. McDonald's is not responsible for the way people eat today. But the inescapable fact is that it serves an enormous number of customers across nationalities and ages (Arndt, 2007).

Bringing everything together, it could be concluded, that the company proposes one product brand with the one-concept value of: unparalleled levels of appealing taste and superior fast-service. Moreover, they were a first mover and became fast food industry leader. The niche of fast food has become very lucrative and many business players want *a piece of the pie*. But McDonald's has a strong brand image linked to its product offering, therefore it tried to extend the brand in healthy food promotion to emerge from the competition.

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[21] Internet link: Brand republic: Superbrands case studies: McDonald's
[22] Internet link: Brand republic: Superbrands case studies: McDonald's

Failed brand extension analysis: Arch Deluxe Burgers

Apart from traditional burgers, McDonald's launched the Arch Deluxe burger in May of 1996. The product was presented as a healthy alternative and was marketed towards adults with more sophisticated palates. Nevertheless the product was one of the greatest flops of those years and consumers *weren't lovin' it*. McDonald's spent over $100m marketing this flop and it could be estimated that they could have purchased one of a dozen or so *high end* fast food chains for that money[23]. As one Wall Street analyst put it: *They teed off one of the most expensive campaigns in history, and still we estimate that comparable store sales were down for the quarter*[24].

Reasons of failure description

Product-brand inconsistency

The problem with the Arch Deluxe approach was that, to McDonald's, the brand was more important than the profit. The management thought the profits were in the brand and not in the products and tried to extend into higher quality segments of food industry not fully understanding the brand equity of McDonald's and without regarding the potential impacts of the operation on the brand. In addition, they confused the customers with a major change in value proposition they were used to so far. As a result, the launched product didn't fit the brand, it was in fact unexpected from consumers, who were and still are looking for a quick and non-elaborated meal.

The Arch Deluxe, was not a bad burger itself, it contained more fat than anything else on the menu, but it wasn't a bad burger; it just didn't make sense to their audience.

Competition

In this operation McDonald's underestimated the intensity of the competition in the upper segments of the fast-food industry. Consumers interested in better quality burgers were in fact going in more premium restaurants and ignored the McDonald's proposal. In this *higher* segment, in fact, the healthy food industry players are also very consistent with their

[23] Internet link: Zune Is Microsoft's Arch Deluxe … Almost
[24] Research insights, summer 1997. Lessons from marketing flops.

brand and try to crowd out any rivals to maintain the strong perception within the already attracted customers. Consequently, the company was overconfident about the product – they were sure it could easily succeed. It also, simply, didn't fit the market they were trying to enter. *Either change the market, or change the player.*[25].

Lessons learned, behaviors to avoid

A brand trying to become something *different* from how consumers perceive it wants to appeal to a different customer base by changing the consumers' associations with the brand. If it fails, the attempt results in a worsening of the brand in comparison to the prior situation[26].

However, the problems encountered with the Arch Deluxe are symptomatic of an even bigger problem. As with other brands of such an enormous scale, McDonald's has been accused of losing touch with its customers and being too far behind the market. Another interesting aspect of the Arch Deluxe failure is that the product was well researched. After conducting masses of market research, in fact, it emerged that people would love to eat a burger designed specifically for adults. Unfortunately, these people seemed to be in short supply when the product was finally launched (Haig, 2003).

To conclude, some brand extension ideas could be mentioned here: Know your positioning; know your target market. Be ambitious but realistic in developing your strategy. Remember that *wishing won't make it so*. Focus on targeting consumers you can actually get, and super-serve them[27].

4.2. STEP 2. Solution possibilities

Once the present status of the company has been recognized to fit into our categorization, the management can adopt one or a bundle of the following suggested solutions to optimally design and implement the brand extension strategy. The solutions provided in this second step of our model have been derived by real examples of successful companies and from management tools described in the academic and the more practical business literature. After a thorough research of practical examples, academic literature,

[25] Internet link: Zune Is Microsoft's Arch Deluxe … Almost
[26] Research insights, summer 1997. Lessons from marketing flops.
[27] Research insights, summer 1997. Lessons from marketing flops.

business reports and interviews with representatives of firms such as Würth we finally identified 5 successful strategies applicable:

- *Solution 1. Value proposition transfer;*
- *Solution 2. Create a new Blue Ocean;*
- *Solution 3. Gradual product development;*
- *Solution 4. Brand repositioning;*
- *Solution 5. Alternative extension strategies: co-branding / sub-branding.*

We then identified different types of brand extension through product portfolio enlargement to which only one or a set of the above listed solutions can be applied. We recognized, in fact, that the brand extension can be implemented through the launch of different typologies of products that we defined as:

- *New product*: a new niche-product differing from the original one;
- *Adjacent product*: a product extension of the original offer differing for minor physical characteristics;
- *Secondary product*: complementary or accessory products;
- *Mass product*: a completely new product to attract a large customer base.

The solutions we described shall then be applied according to the intended brand extension objective. According to different types of products a firm desires to launch different strategies are in fact applicable, as graphically expressed in the following matrix:

	New product	*Adjacent product*	*Secondary product*	*Mass product*
1. Value proposition transfer				
2. Create a new Blue Ocean				
3. Gradual product development				
4. Brand repositioning				
5. Co-branding / Sub-branding				

Fig. 4.3. Extension solutions – Extensions target Matrix: depending on the brand extension objective of management different solutions are applicable. Each solution can be adopted as a stand-alone strategy or in bundle with other solutions to achieve top results, as visually shown as *blues strategies*, *grey strategies* and the *red strategy*.

In the analysis of practical examples, we noted that, while the *brand repositioning* and the *gradual product development* solutions can be applied as a stand-alone strategy, the others shall be implemented in conjunction with the others to achieve the best results as discussed in the solutions descriptions.

Before describing the solutions one by one it is now necessary to first analyze which aspects managers should take into consideration as basis for the successful implementation of the solutions.

In his famous book *Brand Failures,* Haig outlines that brands struggle or fail as a result of a distorted perception of the *brand*, *the competition* or *the market*. In our case, though, the companies addressed enjoy a solid brand with distinctive values, but in their attempt to extend the coverage and name of the brand, marketers shall develop strategies consistent with the above mentioned 3 elements to avoid negative effects on the brand and the products perception.

The Brand

As outlined before, the brand extension decision is strategically critical to an organization. While an extension is a way to exploit perhaps the most important asset owned by a business, the brand, it can also decrease the value of that asset, if implemented improperly. The wrong extension could in fact create damaging associations that may be expensive, or even impossible to change (Ries, Trout, 1981).

In a study published on the Journal of Marketing, the success of a brand extension has been directly correlated to given assumptions about the consumers' behaviour, such as:

- consumers hold positive beliefs and favourable attitudes toward the original brand in memory;
- these positive associations facilitate the formation of positive beliefs and favourable attitudes toward the brand extension;
- Negative associations are neither transferred to nor created by the brand extension.

Considering the factors described here above and after analyzing numerous cases we concluded that, particularly considering the specific situation of their organizations, in a brand perception perspective, the management should focus on the following aspects in their decision making process to successfully perform the extension:

- *Don't extend too far*: focus on the brand values and the internal competencies of the firm;
- *Be sure the brand is familiar to the target audience*: focus on the brand's value proposition perception and customers involvement;
- *Avoid brand amnesia*: stress innovativeness;
- *Avoid management overconfidence*: don't overestimate the brand strength and capability;
- *Avoid customer confusion*: maintain a congruent favourable brand image.

Developing a strategy in line with these elements is crucial. Ignoring those leads in fact to general mistakes that can negatively affect the brand, as shown in our failures analysis in the previous section.

To graphically express the optimal approach to be adopted, the table below has been developed. This matrix illustrates the possible behaviors to adopt and the ones to avoid for the company extending its portfolio, taking the consumers' brand perception into account.

Consumer's brand perception	**DO**	**DO NOT**
Positive brand perception	*Maintain image*	*Overestimate brand strength*
Positive brand extension perception	*Be innovative*	*Extend too far*
Negative brand associations	*Repositioning*	*Neglect marketing support*

Fig. 4.4. Management behaviours: In line with the consumer's perception of the brand the management should implement 3 different actions to preserve (maintain image), innovate (be innovative) or reposition (repositioning) the brand. Overestimation of the brand's strength, a too far extensions and the underestimation of marketing tools must always be avoided.

The table, apart from including the above mentioned 5 key points for successful brand extension, includes an additional option, the *brand repositioning* opportunity. A repositioning of the brand, in fact, can be used not only in case consumers developed negative associations with the brand, but also to create new ones in case the management decides to shift the brand into new markets. Therefore, we consider the repositioning option as one of the possible solutions, as thoroughly described later in this section.

The Competition

According to Porter (1980) rivalry among existing competitors is intense when competitor are numerous and equal in size and power, industry growth is slow, exit barriers are high and rivals are highly committed to their business and have aspirations of leadership. In particular rivalry is extremely destructive to profitability if the competition is only built on price whereas on other dimension like product features, support services, delivery and brand image it is less likely to erode profitability as it improves customer value and can support higher prices. In general, the industry is attractive when there are less fierce competitions between rivalries.

With this in mind it is now important to analyze the role of our firm's category in the competitive environment as they try to extend into new markets or more narrowly into new segments.

As already widely discussed, the objective is to expand, namely through the creation of an new innovative niche segment, as already done with the original product, or entering an already existing market, where competitors enjoy a stronger market position, eventually a more experienced know-how and a stronger bargaining power with complementaries.

When analyzing the brand's perspective, in the previous paragraph, we suggested to focus on the creation of a new segment leveraging the innovative image and approach of the firm instead of trying to generate a cash cow unit in a mass-market. As the smart case underlined, in fact, entering a lucrative market might seem a good idea, but, as outlined by Porter, as competition becomes tighter the barriers to entry and the reactions of the already established players represent a to bigger risk. This is particularly true for the type of firms we aim to help, being their brand values too linked to the core niche flagship product offered and to exposed to the risk of bankruptcy in case of failure. For this reason it is safer, but of course apparently more complicated to try to develop a new blue ocean, and this can be

done by applying a set of principles that has been recognized to be the success drivers when launching the first innovative product:

- *differentiate from competitors*: remain different and innovative;
- *recognize the company's peculiarity*: don't clone the rivals;
- *Exploit competitors' weaknesses*: plunge into the blue ocean.

To conclude, our niche-players are well established and more important are pioneers in their niche segment and enjoy therefore of a pioneer advantage over their rivals. Nevertheless as the niche matures and other players try to attack the market leadership of the pioneers a reaction strategy must be ready to keep up with the pace of change. Hence, these players should also monitor the situation in their own niche of reference and, as competition increases, be ready to respond.

The Market

Adapting the corporate strategy to market conditions and needs in the today's business environment is of crucial relevance. Hamil and Välikangas, in their article *the quest resilience* identified in the capacity of firms to adapt to the market and to its developments the key of survival and success and so suggest the most known consultancy firms in their business practices. This is particularly true for niche players, extremely correlated to the dynamics of the market in which they operate and exposed to a high risk of bankruptcy or absorption by bigger players if unable to adopt a dynamic vision (Rossi, Andreassi, 2007). With this in mind, according to the different types of niche players we analyzed, different market strategies have been identified, as suggested in the table below:

Type of niche company	Strategy orientation
First movers	Innovative USP
Specific niche conquerors	Peculiar customer base with particular needs
"Sell-one-Concept" adherents	Product characteristics and distinctiveness
Strong brand image followers	Brand equity

Fig. 4.5. Strategy orientation for niche players according to the different types of niche players we analyzed, different market strategies have been identified

Of major interest for our purposes is how the audience of firms we are addressing already developed strategies in line with these aspects, and, as stressed above, the same aspects must therefore be taken into consideration when designing the brand extension strategy. Again, thus, the same elements arise, namely *innovativeness*, *focus on a distinct customer base* and the *consolidation of brand equity*.

In a market perspective, then, price shall also be taken into account as an indicator of company adequacy to the market. Products can in fact be priced too expensive or too cheap, with the risk of affecting the prestige of the brand if priced too low and the risk of moving away consumers if priced too high.

Now that we analyzed the aspects the management should evaluate and be consistent with when developing the extension strategy, we can now move over to the description one by one of the concrete solutions that can be applied. The descriptions will be structured in 2 parts, the first with the theoretical description of the solution itself and the second part with a report of successful firms that applied the solution in the past. The application of these solutions will allow our firms audience to enter new markets and thus grow and at the same time to strengthen the brand equity of their firm.

4.2.1. Solution 1. Value proposition transfer

As mentioned, one of the core principles to be applied for a successful brand extension is the transfer of the unique value proposition that differentiates our target firms onto the new products. As outlined in the analysis of the failures in fact, underestimating this aspect is the most dangerous mistake the management can do. Kapferer underlined this fact stating that *products increase customer choice, brands simplify it*. Delivering products in line with the values of the brand is thus crucial to the success of a product launch and to avoid consumer confusion and/or potential negative effects on the brand itself.

The question that arises is therefore *how* to transfer the *one-concept* onto the new products. To answer we developed a simple steps-model to be applied that fits to firms active in different industries and regions:

- *Identify the values expressed;*
- *Evaluate the extension spectrum;*
- *List a set of products expressing the values;*
- *Support the product launch with and adequate marketing strategy;*

A quick analysis of these steps shows how important it is to identify the real values expressed by the brand. The management must in fact make a deep analysis of their brand from the outside, through e.g. market research, and from inside the firm. A wrong interpretation of the brand concept would in fact lead to a distorted brand extension, likely to result in a failure.

The second step implies an analysis of the extension spectrum, namely how far the brand can be stretched according to its values. A brand like SONY, expressing *superior technological know-how*, can be stretched very far in the consumer electronics market, whereas a brand like smart, expressing *room concept*, might be extended to all kinds of room conceptual products, also outside the automotive industry.

Once the values and the spectrum of the extension have been identified the firm shall then make a list of a set of possible products that can express these values within the defined extension boundaries.

Once a product category has been identified to be most suitable, and the product has been designed, the launch must be supported by an adequate marketing strategy, based on the core values of the brand connecting the new product to the brand.

The Caterpillar case shows an outstanding example of a highly specialized company that managed to enter completely different areas through the application of our suggested solution, namely the transfer of their brand equity onto a new product. Caterpillar was formed in 1925 as a producer of tractors and is today a world giant producing more than 300 different heavy machines. In 2004 global sales amounted to $30 billion. However, in 1994 the company made the very innovative and bold decision to make an agreement with an experienced shoes manufacturer, Wolverine World Wide, in order to produce a boots line. Their plan worked and the *Cat boots* sold around 60 million pairs between 1994 and 2005. The popularity of the boots can be explained by different factors, as well as being trendy, the man being, in particular at the moment of launch, the company's ability to transfer its brand image to this new sector. Using the phrase *walking machines* and providing good quality boots, in fact, the firm attracted the customers interested in long-lasting boots and assisted

at the same time its strong and long-life image.[28]

In this example Caterpillar managed to *identify the firm's values*, *define the extension spectrum* avoiding extending into improper product categories (e.g. sport shoes) and *supported the launch with a marketing campaign consistent with its brand values* though the slogan *walking machines*. Other similar examples are the launch by Harley Davidson of its biker's apparel and the launch by the Italian pasta producer Barilla of a line of sauces.

4.2.2. Solution 2. Create a new Blue Ocean

In the cases we examined the common property of failures is lacking of innovative products, in other words trying to compete in existing markets. For the niche players who are struggling to move out of their core product, being innovative and creating a new market is therefore a more advisable solution. In order to describe the concept of innovativeness and Blue Ocean we will introduce our analysis, again, using the Red Bull launch of the Red Bull Simply Cola.

Most consumer goods markets are nowadays almost saturated, or in other words the number of total sales does not change much for most of the products, for example the number of soaps sold in total wouldn't really change significantly since the number of washing hands for one person is remains the same in every situation. As witnessed in the Red Bull Cola case, trying to compete in cola market which is dominantly captured by two huge competitors is in fact very hard. Nevertheless Red Bull believes to its brand image and its *totally natural* product, an innovative idea to overcome competition. However in our perspective this is not really a real innovation and Red Bull Cola ended completely in the middle of the existing competition, the so-called *Red Ocean*, whereas the original Red Bull Energy Drink itself was a completely new product that became a flagship brand in the energy soft drinks segment.

In 2004, in the book *Blue Ocean Strategy*, Kim and Mauborgne defined the last 25 years as the *Red Ocean Strategies* era. The companies were not aware of the whole market, there was an intense competition for small market shares while companies decreased prices heavily in order to gain customers. As a result the growth rates decreased as markets were being saturated and the companies stagnated. To move away from this situation the authors defined the new concept of *Blue Ocean,* strategies to create new markets with no

[28] Internet link: Cpa Global, tracking Caterpillar

competition, especially in the early stages of the market evolution. In their analysis the authors compare the two different strategies identified as follows:

Blue Ocean Strategies	Red Ocean Strategies
Create uncontested market space	Compete in existing market space
Make the competition irrelevant	Beat the competitors
Create and capture new demand	Exploit existing demand
Break the value-cost trade off	Make the value-cost trade off
Align the whole system of a firm's activities with its strategic choice of differentiation and low cost	Align the whole system of a firm's activities with its strategic choice of differentiation or low cost

Fig. 4.6. Blue Ocean strategy and Red Ocean strategy comparison: in their book Mauborgne and Kim (2004) compared the strategies in the two different markets, Blue Oceans and Red Oceans.

The main idea behind the concept of *Blue Ocean Strategy* is therefore to reshape the activities and structure to reach the goal of profit by using different, unexplored pathways. In line with this theory Christensen, in his book *The Innovator's Prescription* (2008) developed the *Business Model Innovation*, that concept focuses on the value creation and consequently on the achievement of value maximization. Instead of copying business trends, in fact, companies should concentrate on their value chains, understanding the customers and innovating new supplies to enjoy uncontested monopoly situations, at least for initial stages.

There is a reliable model of strategic thinking behind the creation of new markets. According to Business Week in fact the 95% of innovations are technical, but in order to create Blue Oceans it is not obligatory to increase the technology level. It is crucial to provide a service or a product that is unique. A four action framework is described by the authors Kim and Mauborgne (2004):

Eliminate	Which factors that the industry takes for granted should be eliminated?
Reduce	Which factors should be reduced well below the industry's standard?
Raise	Which factors should be raised well above the industry's standard?
Create	Which factors should be created that the industry has never offered?

Fig. 4.7. Blue Ocean strategy implementation: the 4 actions to undertake to successfully generate a new Blue Ocean market, as outlined by Mauborgne and Kim in their publication.

Acting on these 4 elements a company can develop new markets and avoid the risks of intense competition. This is particularly relevant for the firms we target, characterized by a limited size and therefore unable to stand a pricing competition against large and established firms.

Analysing a few success stories can help to better understand the concept described and to derive possible insights and aspects to consider in the design of a *Blue Ocean Strategy*.

Starbucks is a good example of a firm that created its own Blue Ocean. Instead of competing with brands like Nestle, Jacob's or Maxwell in the same market, Starbucks created in fact its own market space by opening up its coffee shops. In these stores Starbucks don't need to defend its brand with slogans like *our coffee is better*, but they created their uncontested market space in their well designed atmospheres for customers.

Another example, more relevant for our purpose given the *nicher approach* of Nintendo towards the market in the past 10 years, is the launch of the Nintendo Wii. When Nintendo launched this product, the game console sector was highly dominated by the brands Sony-Playstation and Microsoft Xbox, therefore, instead of releasing a more technologically advanced game console to attract regular game players, Nintendo developed an innovative game method leveraging on its innovative appeal and image. Moreover, if we consider the game console producers as specialized brands with common target consumers, it is thus clear how the Wii succeeded to attract consumers outside the original target, such as elder people or females.[29] Eventually, the Nintendo Wii became even the leader between game consoles in number of sales, outperforming technologically more advanced console systems[30].

Innovation brings therefore access to new markets as well as carrying the original target consumers of the core product to different markets, a successful brand extension.
Another appreciated brand extensions, was implemented by Pet Smart when the management succeeded to move the brand into the hotel service. Pet Smart is in fact a highly specialized company selling supplies and food for pets. During the years, the company successfully extended its services to different categories and launched among other

[29] Internet link: Bloomberg, Nintendo Says Women, Elderly Key to Wii Game Player
[30] Internet link: VG Chartz

extensions the PetSmart Pets Hotels, a very innovative service. The brand image and a well built relationship with consumers helped the extension to work and the company is now opening new hotels on quarterly basis. This extension is a typical example of using the image and carrying the existing customers to the new sectors while creating a new innovative product.

Most of the cases that we consider successful in moving to different sectors are in fact still keeping their core brand image. As a result we can defend that specialized niche players can move to other markets if they are innovative by carrying their consumers with them or by reaching to undiscovered customers. Launching a new innovative product allows the firms we target to exit therefore from their unique market of competence and launch a new niche. Nevertheless this strategy does not apply if the firm wants to enter an already existing mass market, where prices and accessibility drive competition rather than innovativeness.

4.2.3. Solution 3. Gradual product development

When we analyzed the examples of firms who failed in their brand extension attempts we identified the temptation of extending the brand too far as one of the most risky mistakes a company can do. Nevertheless the spectrum of the extension, as defined above, represent a boundary that the firm can gradually shift. Aaker and Keller (1992) showed how this process can be done through the introduction of what they defined as an *intervening intermediate* extension, namely a product that *shares attributes with both the proposed final extension and the core brand.* Through the introduction of a successful, and in business terms easier and cheaper, extension the firm can in fact facilitate the acceptance of additional and, more importantly, farther extensions to allow the brand to enter into more diverse product categories. The concept of *gradual product development*, as we defined it, is therefore one of the most powerful and applicable brand extension strategies for our target firms.

Consistent with the main principles discussed in the introduction of this chapter and with what outlined here above we can now analyze how to implement this solution. Keeping in mind that the extension spectrum can be widened but still has a limit (e.g. smart will never sell airplanes even if they launch a flying car as intermediate extension), and once the final product category to be reached has been defined the management should identify which intermediate extension best fits the final extension and the brand. As stated by Aaker and

Keller in fact the intervening extension needs to incorporate attributes peculiar of both the brand and the final product.

Moreover, the authors report that the launch of an intermediate product extension has a set of additional benefits for the parent company, such as:

- lying in the conceptual set of the original product the firm can, to a certain extent, save on advertising and development costs, a risky mistake when extending in a far category;
- it increases sales and market share, being a stand-alone new product;
- It broadens the firm's product line, improving the future perceptions for future dissimilar proposed extensions.

In case of failed intermediate intervention, the authors recognized that, as already reported in the theory part of this thesis, the failure negatively affects the target final extension only for premium and luxury brands, and not for medium-to-low profile brands. In our case, therefore, since our firms are non-premium the risks on the brand's equity linked to a failed intermediate intervention are rather low. The major concrete risk is represented in this case by the bankruptcy risk our firms face given their limited size. The losses arising from the development and marketing costs and the absorption costs remain in fact a concrete threat.

Another aspect to take in consideration is time. To allow the intermediate product act effectively on the consumers brand's perception it needs to stay on the market a sufficiently long time. The management must therefore be able to read the signals from the market on when to implement the final and planned extension.

In the business world we found several examples of firms who applied this approach and successfully extended their brand into new product categories, completely out of their initial market of reference. If we look on the market today in fact, we find Apple selling telephones, Swatch selling jewellery and MINI selling a SUV model. These products apparently lie well outside the original target market of these firms, but still they managed, through well thought gradual product developments to reach such far markets.

When in 1983 Swatch entered the wrist watches market with its innovative plastic models not even the most prepared business analysts would have imagined to see the same brand marketing a premium jewellery line few years later. Despite this Swatch extended its

brand further and further, basing its success on its innovative and fashionable appeal. After a consolidation phase, where the brand Swatch gained in relevance and exposure, the management of the Swiss watches maker decided to launch a nearby product line, the Swatch Irony, a more premium and adult watches line that appealed consumers with a more elaborate and luxury taste. After the success of this line Swatch decided then to move further to the jewellery market, to consolidate its premium image and its presence in the high-end accessories market. This move was successfully done through the introduction of the Swatch Bijoux jewellery line. The Irony line, between the watches market and the jewellery market worked therefore perfectly as *bridge* between the two categories and allowed Swatch to extend its brand in the more lucrative premium segment and to expand its product offer, from plastic youth stylish but relatively inexpensive watches to premium jewellery products.

A similar strategy was adopted by BMW on its subsidiary brand MINI. To enter the lucrative SUV segment with the MINI Crossman the management of MINI launched in fact an intermediate product, the MINI Clubman, close to a MINI Cooper in the design and concept and at the same time close to the later extension product, the MINI Crossman, which has the same length and door concept of the Clubman. With this product portfolio enlargement the MINI brand moved away from the extremely competitive high-end hatchback segment and entered into the large and lucrative SUV segment without negatively affecting the iconic status enjoyed by the MINI brand and its core product, the MINI Cooper.

To a certain extent Apple managed to do the same entering the consumer portable electronics market first with the iPod and then launching the revolutionary product iPhone in the portable phones market.

When analyzing these examples it is interesting to note how these firms managed to effectively transfer their brand values onto their new products. The consumers, facing a gradual development of the core products offered originally by these innovative niche firms, gained in fact confidence with new products branded with the same name and gradually shifted their perception of the brand from a one-product brand to a more diversified brand offering a various set of solutions, but still perceiving that one-concept value proposition that defines these companies.

4.2.4. Solution 4. Brand repositioning

In the attempt to enter new markets and attract new customers a widely used

management tool is the repositioning of the brand. This solution targets directly the brand and not the product portfolio and the goal is, in this case, to act on the brand to launch in a later stage a new product according to the new brand positioning.

In their study Corstjens and Doyle (1989) defined different types of repositioning strategies, *zero*, no repositioning, *gradual*, to adjust the brand to the evolving external environment or *radical repositioning*, a discontinuous shift towards a new target market and/or a new competitive advantage.

In our specific case, our specialized niche players are trying to move away from their unique brand status and in doing this they are trying to:

- appeal to additional consumers or consumer need segments for whom the current brand positioning won't work;
- enter new business where the current positioning is no longer appropriate;
- Significantly alter their strategic direction towards a more diversified product offering.

It is therefore appropriate to conclude that a more *radical repositioning* is more suited to their objective. Nevertheless, as outlined by Aaker (1991) a repositioning strategy is more difficult to implement if the new researched brand values are inconsistent with the present associations customers built. Therefore, in line with our principle of transferring the core value proposition, in our case the repositioning strategy should aim at *selecting those associations which are to be built upon and emphasized and those associations which are to be removed or de-emphasized* (Aaker, Shansby 1982).

Moreover, empirical evidence has shown that companies should focus on achievable rather than aspirational positioning and Copeland (2001) developed for the McKinsey's Marketing Practices a three steps approach that can help ensure success:

- Ensure relevance to a customer's frame of references;
- Secure the market's *permission* for the positioning;
- Deliver on the brand's new promise.

Niche marketers, by definition, deal with relatively small group of customers rather than trying to reach a high market share, and traditionally rely on a very strong brand associated with particular features that other brands do not supply. While the first factor reduces the difficulty of a brand repositioning due to the limited number of consumers to *re-*

educate, the peculiarity of the brand's values makes it a difficult task to effectively change the consumers' perception of the brand. Considering these aspects the application of the steps we listed above to niche companies needs therefore to be rethought to successfully design the brand repositioning.

In his model, Copeland defines the frame of reference as *the emotional and physical needs of the customers and the dynamics of the situation in which those needs occur and most customers have a very specific definition of what the brand is and what it can be relative to their frame of reference* (e.g. Gatorade: sport/physical activity frame of reference). The niche companies' customers in particular have a very rigid frame of reference, so that for these companies repositioning is a more difficult, but achievable task. To successfully reposition a niche brand the key is thus to avoid the repositioning too far from the consumers perceived frame of reference.

Regarding the maintenance of the customers *permission* to extend, Copeland states then that repositioning marketers must spend more time deeply understanding what customers really think about the brand and where potential *bridges* to growth and new positioning exist. To achieve this goal niche companies should focus on the initial concept *leveraging on the brand's unique emotional beliefs to carry customers to the intended brand perception*. Again the concept of not extending too far is of crucial relevance.

Finally, according to Copeland, to communicate to the outside the new brand's *promise* it is necessary that companies *identify the pathway of performance "signals" that will convince customers of the new brand positioning* and d*evelop necessary product/service programs to ensure consistent performance on these signals to the customers.* For example a hi-tech firm promising *ease of use* should focus on customized and simple functions rather than on delivering the latest technological features available.

Another aspect to consider is then the final goal of the repositioning, depending on this factor in fact different types of repositioning strategies can be applied and different implications arise. If repositioning is aimed to increase the market share by extending the niche market to a broader customer's basis, the firm will face very high R&D and advertising costs and will expect a long period to establish a new frame of reference, whereas trying to enter a similar market represents a less time and cost consuming strategy. In our opinion this latter choice is more appropriate, since it will allow the company to increase its market share in a relative short time and avoid the risk of moving too far from the initial brand value proposition while preserving the core values expressed by the brand. To graphically

conceptualize this idea we apply to our solution the model developed by Simms and Trott (2007) that summarizes the different types of repositioning.

		Functional brand characteristics	
		Existing	New
Symbolic brand characteristics	Existing	*Brands positioning maintained*	*Rational repositioning*
	New	*Emotional repositioning*	*Complete repositioning*

Fig. 4.8. Brand repositioning matrix: This matrix uses the two key attributes of symbolic and functional brand characteristics and acts as a *lens through which the management can approach the repositioning challenge.*

This conceptual framework uses the two key attributes of symbolic and functional brand characteristics and acts as a *lens through which the management*, our final audience of this thesis, *can approach and interpret the repositioning challenge* (Simm, Trott, 2007).

According to our analysis niche players trying to enter a mass market and hence move farther away from the initial customers' frame, will need to perform a *complete repositioning*, since both the core product characteristics and therefore their value proposition need to be changed to appeal a wide consumer base and their needs. On the other hand, entering a similar market is a case of *rational repositioning*, where the core values of the brand can be maintained while introducing new product features. Finally, the *emotional repositioning* approach should be avoided from our typology firms, entering a new niche through a new value proposition based on the present product characteristics would in fact just lead to a new *lock-in* situation in another niche while losing the presence in the original core market of competence.

An example of a niche player who successfully implemented a repositioning strategy is the multinational Würth that changed its approach through a partial repositioning after 60 years of successes, showing how a repositioning is possible even after a brand is so strong established.

Active since 1954, Würth is a worldwide trading group with more than 400 companies in 86 countries and around 60,000 employees today [31]. The core business of the Würth Group is the global trade in fastening and assembly technology, which is implemented through an international network of Group companies.
The main innovation brought by Würth and the source of its 65 years' success has been the creation of a vast sales network that deals directly with the end users in different sectors, such as automotive and construction. The concept can be summarized in Prof. Würth's words: *Our customer is our king*, thus Würth supplies its customers directly, with high quality products and service, instead of supplying through retailers or wholesaler.

Although the initial concept proved to be very successful throughout the years, during the last decade a lot of efforts have been put in researching new sales network to further increase Würth's market share, which was and still is relative low, compared to the market's potential. In fact, through its initially innovative sales concept, Würth has been able to create a niche market based on its alternative sales method, but in the long term faced the difficulty to increase its market share, due to increased competition and the rise of companies that applied its same concept. One of the strategies it hence used to differentiate from its competitors was to open retail shops and to introduce online sales and teleselling[32]. The development of the new sales network, which direct competitors have not been able to introduce yet, can be considered as a *partial repositioning*, aimed to increase market share and to shift to other sources of income achievable with lower costs, rather than relying exclusively on sales representatives, which are more expensive than other sales networks[33].

Other examples of successful brand repositioning by niche specialized players are the relaunch of the MINI brand by BMW in 2001, after nearly 40 years from the birth of MINI, a *rational repositioning* according to Simms and Trott (2007), and Skoda, who managed to move away from a low cost, low reliability position in the market to become a well respected high value brand (Dransfield, Needham, 2005).

4.2.5. Solution 5. Alternative brand extension strategies: co-branding / sub-branding

An alternative approach to brand extension, as specified in the literature review part of this thesis, is the implementation of sub- or co-branding strategies. These strategies are

[31] Internet link: Würth Official Website
[32] Würth official internal journal (Trend), November 2008 issue
[33] Würth Italia purchase department

widely used in the market and have the peculiar advantage of leveraging the parent-brand image to launch a new product or product line under a stand-alone brand.

These strategies act on the brand in a different way than a traditional brand extension and have in one way a more limited impact on the core brand due to the communication of a new brand, even though the core brand acts as base. For this reason this approach, especially for our audience of firms, is applicable to specific goals of the extension and not for a pure brand extension. Before analyzing this aspect and the application range of these solutions it is nevertheless necessary to define the concepts of sub- and co-branding.

Sub-branding may provide an effective way for an organization to enhance its quality images. A sub-brand is defined as a product brand that has its own name and identity to differentiate it from the parent brand. A sub-branding strategy enables businesses to target sub-segments that they wouldn't be able to access as effectively with the parent-brand alone, and a portfolio of sub-brands enables businesses to extend and maximize their total market footprint.[34]

One of the most powerful brands launching successful sub-brands is Kellogg's. Sub-brands such as Kellog's Corn Flakes, Kellog's Frosties and Kellog's Rice Krispies are in fact well established brands and represent the breakfast favourites of millions of consumers all over the globe. The ability of Kellog's was to leverage on its well established parent brand to transfer its values of outstanding quality and customer care onto its sub-brands (Bahvna, Stuart, 2009). Another well known example is the Courtyard by Marriot Hotels chain. In this case this *product* is clearly different in terms of features, applications, and users, from the Marriot original values. This way, through the sub-branding, the risk to the core brand is reduced while Courtyard benefits from the positive associations consumers have with the Marriot brand.

The c*o-branding* strategy according to Bernd et al. (2008) is the combination of two brands that provides greater assurance about product quality than does a single branded product, and should lead to higher product evaluations and premium prices. In the attempt to strengthen the parent brand and extend customer value perceptions to a new product the co-branding strategy might be very beneficial, because a second brand can contribute a perception of additional value to both the co-branded product and the primary brand itself

[34] Internet link: Value Engineers: Sub-branding

that the primary brand cannot achieve on its own.

Of particular relevance for our purpose is the fact that also less-established brands may be good candidates for co-branding if they own a specific association in a niche that is not served by the strong partner brand that is looking to enter the category.

For instance, Sony and Ericsson's engaged in a joint venture for a co-branded name in the telecommunication industry to compete with Nokia and Motorola (Chang, 2008); Citröen launched a product line called C3 Pluriel D&G in cooperation with the brand D&G. Another example of successful co - branding strategy could be Marriott joining forces with Starbucks through a long-term licensing agreement to open coffeehouse locations in select Marriott Hotels, Resorts and Suites. The agreement allows Starbucks to reach more consumers in a new venue and gives Marriott the ability to offer the leading brand of specialty coffee to their guests.[35]

Now that we analyzed the concepts of sub- and co-branding we can analyze how to apply them to our very specific typology of firms.

As in the examples cited above when using these alternative brand extension strategies the objective of management can be to launch a new product line (e.g. Kellog's) performing a complete brand extension or to launch a *secondary* or *subsidiary* product differentiation (e.g. Citröen with D&G) to add an extra values communication to consumers.

Given the nature of the brands of the firms we are addressing, very strong but specific at the same time, we believe that the launch of subsidiary product lines as sub-brands, like Kellog's did for example, is not applicable because the brand coverage of niche-brands is too narrow. Smart cars or Red Bull are very specific brands with an extremely limited product portfolio – only one product – and are therefore unlikely to launch a new line under a sub-brand. These firms should instead exploit their brand to launch either a line of *secondary* or *accessory* products under a sub-brand (e.g. Red Bull clothing line) or enter in *co-branding partnerships* with well established brands to enter larger markets (e.g. Red Bull go-karts, smart electric scooters) acting as specific *value adder* to these mass products and through these partnerships slowly move their brand in new directions.

We suggest therefore using these alternative brand extension approaches not to perform a complete product portfolio enlargement but to use them as bridge towards new markets through the launch of *minor, secondary* or *accessory* products.

[35] Internet link: Investor shareholder

CHAPTER 5. Conclusions

5.1. Conclusions

In this chapter we sum up our conclusions that based on theoretical research as well as empirical findings. Finally, some proposals for further or alternative researches are presented considering the limitations of this study.

Our purpose with this work was to analyze the capabilities of highly specialized, in other words focused to a niche, companies to expand their product portfolio, moving away from their core products. We aimed to understand the problems they face and bring possible solution methods in guidance of companies which succeeded to do so.

To define the challenge to be solved, we collected data by analysis of individual company cases. For some companies we used primary information that we gathered via interviews. In addition, business reviews, newspaper articles and personal experience were used for a further analysis.

Theoretically, brand extension strategies are not always beneficial, even when implemented by non - niche players. These extensions are justified by growth and profitability they bring to the firm as well as the long term benefits that stem from improved brand perception and positioning. Whether the brand extension implemented is a *line extension* or a *category extension*, they can potentially provide benefits for marketing new products, they can ease the clarification of brand image and value proposition of the company. On the other hand they can lead to failures and losses of profits for the companies, while also potentially affecting the perceived brand image and generate customer's confusion. For highly specialized marketers, focused to certain customers, brand extensions are even more risky.

As we introduced in our model, the idea of brand extension is to expand he firm and its market coverage. This is particularly relevant for the typology of the firms we addressed in our work. We classified the characteristics of these organizations as *first-movers, niche specialized*, *offering unique products*, with a *specific value proposition* and enjoying as a result a *strong brand image* in their market of competence. These characteristics drive the success of the companies in their core field of competence with their core products. However, our research also proved that these same properties represent an obstacle to future possible portfolio expansions. Locked in their brand image, in fact, resulted to be the main factors negatively affecting these companies' brand extension attempts.

In our work we concluded that the management has a crucial role in the brand extension failure or success, in our examples we realized, in fact, that management is occasionally not able to identify the real situation of the company and its position from customer's perspective. This fact, in conjunction with a set of frequently repeated bad management practices resulted in the launch of non-suitable new products. Among others, the most remarkable bad management practices we identified are *management overconfidence* to brand image, *underestimation of competition*, *extending too far* and *creating inconsistency between product and the brand image*, *neglecting marketing support*, generating as a result *customer's confusion* about the products launched.. In some cases managers implement market researches in order to avoid possible failures, however our empirical results show that the results derived from these researches are not sufficient for successful brand extension decisions; thus we do not list this method as a confident way of solution.

According to our research, consideration of *brand, market* and *competition* is crucial before designing and implementing brand extension strategy and these aspects should be carefully evaluated as a first step.

In our work we concluded, that the companies launch the extension products in form of a *new product, adjacent products* parallel with the original offering, a *secondary* or *complementary products* and *mass products* that targets a large customer base.

Based on empirics, we the defined diverse solutions to move away from the paradox of being locked in the brand image and value proposition that characterizes and at the same time limits the firm. The solutions are the *value proposition transfer*, *creating a new Blue Ocean,* gradual product development, brand repositioning and alternatives as co-branding and sub-branding are derived subsequently to the observation of successful companies. These solutions are applicable alone or together depending on the launched product type.

Our research has shown that if market variables and position of the brand are carefully analyzed by the management, with a well designed product, brand extensions are also possible for highly specialized companies. If the common mistakes identified are carried out, the potential benefit of brand extensions could turn into undeniable and complex failures.

We believe to add to the literature on niche market strategies and contribute to the research on brand extension for different types of companies. As brand extension for highly specialized firms is not deeply studied, our thesis sheds more light to this field of study. The model generated widens the niche market and brand extension dimensions as well as broadening the existing management theories and knowledge.

5.2. Proposal for further research

Whereas our work is primarily a theoretical research, we suggest the implementation of our model to a real firm facing the problematic we described to evaluate the actual applicability of the model.

In our research we had constraints such as limited time and restricted access to exact market data. For further researches we suggest therefore that the results of brand extensions shall be measured in terms of market value or financial results.

Moreover, since we examined companies from several sectors, we couldn't have opportunity to observe deeper industry specific statistical results for our model. A study focused on a specific sector could bring results that compare the effects on competition within the market in longer terms.

Another applicable approach could be a sociological research implemented through interviews to a sample group in order to understand the effects of brand extensions on the perception of the brand image by consumers.

Awaiting the results of the future further researches and analysis on this topic we put our findings and our results at disposal for both academics and brand management practitioners.

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